

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Brighton, Michigan</u>	County Livingston
Audit Date June 30, 2004	Opinion Date September 17, 2004	Date Accountant Report Submitted To State: November 19, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Hwy.	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Brighton, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Brighton, Michigan

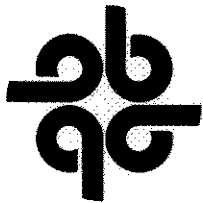
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CITY OF BRIGHTON

"Providing quality service"

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Brighton, MI 48116-1593
(810) 227-1911
Fax# 227-6420
TDD Phone: (810) 227-8357

City Manager
225-8022

Community Development
Assistant Assessor
227-9006
Assessor
225-8024
Building/Planning
227-9005
Building Inspector/Zoning
225-8017
Bldg. Inspection Line
227-0419
Community Development
Director
225-8025
Code Enforcement
227-9007

City Clerk /
Human Resource Director
225-8021
Cemetery/
Voter Registration
227-0463

Finance
Accounts Payable
225-8019
Deputy Treasurer
225-8023
Finance Director
225-8020
Property Taxes
227-0179
Utility Billing
225-8041

Fire Department
615 W. Grand River
(810) 229-6640
Fax# 229-1619

Police Department
440 S. Third
(810) 227-2700
Fax# 227-2063

Public Services Director
225-8004

Water Plant
227-2968

Wastewater Plant
227-9479
Fax# 227-7635

DPS Service Building
225-8001
Fax# 225-0420

Brighton Community Center
225-8032
Fax# 225-9248

October 4, 2004

Honorable Mayor and City Council
City of Brighton, Michigan

The Annual Financial Report of the City of Brighton, Michigan for the fiscal year ended June 30, 2004 is submitted herewith. It was prepared by staff in the Finance Department with the assistance of the audit staff from Plante & Moran, PLLC. This report was prepared in accordance with regulations and standards set forth by the City Charter, the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, and the Government Finance Officers Association. Responsibility for the accuracy, completeness, and fairness of the financial data herein, including all disclosures, rests with the City's management.

In 1999, the GASB issued Statement No. 34 (GASB No. 34), which significantly changed the contents and format of municipal financial statements. GASB No. 34 was developed to promote comparability between various units of government and to demonstrate the operational, as well as the fiscal, accountability of each municipality. Prior to GASB No. 34, municipalities reported only on the fund basis. This demonstrated to the financial statement user that the municipality met its responsibility to the public and all legal requirements in the short term, usually a year or a budget cycle. With the adoption of GASB No. 34, a municipality must also include full accrual government-wide financial statements. The purpose of these statements is to demonstrate the operational accountability of the municipality. Operational accountability is the City's responsibility to report the extent to which we have met our operating objectives efficiently and effectively, using all resources available for that purpose, and whether we can continue to meet our objectives for the foreseeable future. Both the providers and users of City services want to know (1) what public services are provided today, and will the City be able to maintain that same (or increased) level of services in future years without an increase in the tax rate, (2) how much debt is outstanding and will the City be able to repay it without cutting back on the public services

provided or increasing the tax rate, and (3) how does the City compare to other cities with similar characteristics. The accompanying report is the first issued by the City of Brighton in compliance with the new format requirements of GASB 34.

A management's discussion and analysis report, as well as entity-wide, full accrual financial statements, have been added to the front of the financial statement section. The fund statements have been altered to provide reporting under the major/nonmajor fund concept. Reconciliation between the two presentations is included and the note disclosures have been expanded to provide appropriate information on both the entity-wide and fund financial statements.

The information presented is accurate in all material aspects. The financial statements presented are designed to provide the reader with information to assist in determining both the long-term fiscal health of the City and the City's ability to meet obligations on a short-term basis. The financial statements contained in this report are designed to fairly set forth the financial position and results of operations of the City and include all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs.

The Reporting Entity

As required by generally accepted accounting principles (GAAP), these financial statements present the City of Brighton and related component units. The individual component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The report includes all funds of the City and encompasses a full range of municipal services in the administrative, public safety, community development, and public services functions of the City.

Report Organization

The annual financial report was prepared to meet the needs of a broad spectrum of financial statement readers and is divided into the following major sections:

Introductory Section - This section introduces the reader to the City of Brighton and to this report, by way of this transmittal letter.

Financial Section/Basic Financial Statements - The independent auditor's report, management's discussion and analysis, government-wide financial statements, combined fund financial statements, component unit financial statements, and notes to the financial statements are included here.

Financial Section/Required Supplemental Information - This section contains a comparative analysis of actual revenue and expenditures versus the original and final amended budget for the General Fund and each individual major Special Revenue Fund.

Other Supplemental Information - This section contains the City's schedule of indebtedness.

Statistical and Continuing Disclosure Section - Although this section contains substantial financial data, these schedules differ from financial statements in that they present some non-accounting data, cover more than the current year, and are designed to reflect economic and financial trends and provide data pertinent to the City's annual continuing bond disclosure requirements.

General Information

The City of Brighton is a growing city located approximately 45 miles northwest of downtown Detroit. It was incorporated as a village in 1867 and became a Home Rule City in 1928. Brighton encompasses an area of approximately 3.0 square miles, has a population of approximately 7,100, and is the central business hub for approximately one-half of Livingston County's population of approximately 177,000 residents who reside in its southeast quadrant. The City's estimated 3,400 households reflect an approximate average of 2.10 persons per household.

The City is primarily residential and commercial in nature, with residential land uses comprising 70 percent of the land area and contributing 54 percent of the total ad valorem tax base. Although commercial uses comprise only 14 percent of the City's land, they generate approximately 32 percent of the tax base. Industrial land uses occupy 16 percent of the land and contribute 5 percent to the property tax base. The remaining 9 percent of the ad valorem tax base is comprised of personal property taxes on commercial and industrial real estate.

Brighton has the quality of life of a small town, but also has the advantage of being ideally located with easy access to Ann Arbor, Detroit, Flint, Jackson, Lansing, and Pontiac. The City operates under the Council-Manager form of government. The mayor is chosen by the seven-member elected City Council from among its members. The City Council appoints the City Manager, who is responsible for the administration of the City's activities. The City Council also appoints the City Attorney, City Planner, and City Engineer.

Major Initiatives in 2003-2004

The City completed its efforts to prepare for the significant accounting changes it adopted in total on July 1, 2003, per GASB Statement Number 34. This included a city-wide fixed asset inventory.

- The City borrowed \$1,520,000 of Drinking Water Revolving Funds through the Michigan Municipal Bond Authority for the rehabilitation of the Pierce Water Plant. At year end, the project was approximately 85 percent complete.
- The City issued \$530,000 of Capital Improvement Bonds for various capital projects.
- The City began the construction of a new \$800,000 water storage tank as part of a previous intergovernmental agreement, whereas the developer contributed the land and is paying for approximately 87 percent of the project.
- The City adopted a formal General Fund fund balance policy.

- The City adopted a formal policy for the General Fund's annual contribution to the City's capital improvement program.
- The City revised its credit card policy.

Accounting System and Budgetary Control

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, the City's accounting system is organized and operated on a "fund basis." Each fund is a distinct, self-balancing accounting entity.

This report consists of management's representations concerning the finances of the City of Brighton. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these presentations, management of the City of Brighton has established a comprehensive internal control framework that is designed to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Brighton's financial statements in conformity with GAAP.

Internal controls consist of a plan of organization under which employees' duties are so arranged and records and procedures so designed as to make it possible to exercise accounting control over assets, liabilities, revenues, and expenditures. We believe the City's internal controls are adequate in safeguarding the assets and provide the basis for reliability in all financial transactions.

In view of the importance of the budget as a planning and control instrument in the City, the accounting system provides the basis for appropriate budgetary control. Budget-to-actual comparisons are included in the required supplemental information found on pages 52-55 of this report. Unlike accounting, budgeting is not essentially a financial procedure; it is primarily a policy-planning process. Therefore, it is much less amenable to standardization; however, the importance of GAAP, audit standards, the credit markets' need for more complete disclosure of the City's underlying condition, and the heightened sophistication of the public and press about the importance of outcomes as well as projections, have combined to professionalize and conform budgeting terms and definitions to GAAP. As a result, common terminology, measurement, and classification are used consistently throughout the City's budget, accounting records, and financial reports.

Expenditures are authorized via an annual budget passed by resolution in which the Council authorizes the level of funding for City operations. The Council adopts an activity level budget which is considered the maximum authorization to incur liabilities and not a mandate to spend. No obligation shall be incurred against, and no payment shall be made from, any appropriation account that lacks a sufficient balance available to meet the obligation. All expenditures, except personnel costs and certain defined exceptions, are required to have an authorized purchase order.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Brighton operates.

Local Economy - The economic future of the City of Brighton is inseparably linked and interconnected with the stability and growth of businesses in the Brighton area and the economic future of southeast and south-central Michigan. Economic diversification, which enhances the tax base while meeting the service needs of residents without requiring extensive City services, is vital to Brighton's economic future. The City can do little to affect interest rates, consumer prices, or, except for very brief periods, the unemployment rate. When it comes to development, however, the City has considerable ability to stimulate the City's economic development through autonomous actions. Although the availability of a skilled labor supply, location and transportation facilities, and energy costs are far more important in industry location decisions than are local tax and expenditure policies, the level of taxation in the City may be an important determinant of business location *within* the region. How much the City is willing to provide in tax incentives for economic development depends on the probability that the fiscal incentive will work, the need for jobs in the City, and the potential effect of any new industry on the City's revenue and costs. Whatever the effect of the fiscal environment, the City does what it is most capable of to influence location decisions through the fiscal system.

According to the Michigan Employment Service Agency, the employed labor force of the City of Brighton residents was 4,300 at year end. According to the Southeast Michigan Council of Governments (SEMCOG), businesses in the City of Brighton employ approximately 9,200 workers, which is expected to increase 33 percent to approximately 12,200 by 2030.

The City's property tax base is well distributed among its taxpayers and has been increasing steadily. Proposal A, which was voted into law on March 15, 1994, created an "assessment cap" of 5 percent or the rate of inflation, whichever is less, until property ownership is transferred, at which time the cap is lifted to the subsequent year's assessed value. Without significant new taxable land development within the City, the assessment cap may adversely affect the City's future ability to finance existing City services. On the other hand, as ownership of properties is transferred and their respective assessment caps are lifted, the cumulative increase in taxable value may exceed the rate of inflation, causing the City's operating millage to be rolled back based on the Headlee Millage Reduction Fraction, which is currently at 15.4849 mills.

Property tax administration involves discovery of the tax base, preparation of an inventory or property list, appraisal and assessment of property value, recognition of exemptions, determination of the tax levy, and finally collection, remittance, and reconciliation of the tax. Fundamental to accomplishing these tasks is the establishment and maintenance of adequate position levels staffed with highly qualified employees, the establishment and maintenance of complete and accurate procedures and forms, and the provision of a system to maintain records and retrieve information in a timely and accurate manner. To that end, I believe the City needs to utilize its existing personnel and technological resources to their optimal value, while at the same time evaluating the need for structural and organizational changes to prepare for the future demands and workloads of this vital and most important revenue source of the City's governmental activities.

The adjusted taxable valuation of \$328,690,500 represents a 5.8 percent increase over the previous year's adjusted taxable valuation. The ratio of total City tax collections to date for tax year 2003 (current and delinquent) to the current tax levy is 99.73 percent.

Long-term Financial Planning - Annually, City staff prepares a six-year Capital Improvement Plan (CIP), which is reviewed by the City Planning Commission and adopted by the City Council. The first year of the adopted CIP is incorporated into the City Manager's proposed budget. The City's DDA has its own development plan, which was previously adopted by the City Council and is also reviewed annually for budgetary considerations. A City-wide debt management policy has recently been proposed to the City Council. Among other things, one of the intents of this policy is to establish debt capacity limits or guidelines for the City to use in conjunction with its capital planning and budgeting processes.

Cash Management Policies and Practices - The City makes a serious effort to maximize investment earnings, diversification, and insurability of its investable funds. Idle cash during the year was invested in U.S. Treasuries, cash management funds, guaranteed investment contracts, and annuity funds. Interest earned for the current fiscal year amounted to \$128,208, a decrease of \$171,062, or 57 percent, from the preceding year, which was caused by significant erosion in overall market rate yields over the course of the last 12-18 months.

The Future

We continue to be fiscally sound, accountable, and have operated the City in a good financial manner despite rising costs and demands for services. However, maintaining a sound financial condition for the City looks challenging. The City's true financial condition can be broadly defined as its ability to finance its services on a continuing basis. More specifically, financial condition refers to the City's ability to maintain existing service levels, withstand local and regional economic disruptions, and meet the demands of natural growth, decline, and change.

Maintaining Existing Service Levels - The City can currently afford to continue paying for the services it now provides. Current service levels include the maintenance of capital facilities, such as streets and buildings, in a manner that protects the initial investment and keeps the facilities in usable condition. In addition, the continued provision of City services requires funds for future liabilities, such as debt service payments, which are pledged against the future full faith and credit of the City's tax base. However, if current negative trends of reduced revenue sharing, reduced personal property taxing ability, and the cumulative effects of the Headlee Amendment and Proposal A continue well into the future, then the City will be forced to look seriously at possible service cuts.

Withstanding Economic Disruption - The City's current undesignated fund balance provides a cushion to withstand most local and regional economic disruptions, such as a decision by a major employer to move out of the City, producing a significant negative impact on City employment and its tax base; or a surge of national inflation that affects expenditures more heavily than revenue, leaving the City more funds but less purchasing power. Nevertheless, this may not be sufficient in the event of a natural or criminal disaster, which could require the City to borrow short-term to cover unanticipated emergency expenditures.

Meeting Demands of Growth and Decline - According to recent projections provided by SEMCOG, the City of Brighton's population is expected to increase to only 7,365 by the year 2030. As we have seen in recent years, population growth can force the City to rapidly assume new debt to finance streets and utility lines, or it can cause a sudden increase in the operating budget to provide necessary services. Loss of population, on the other hand, can leave the City with the same streets and utilities to maintain, but with fewer people to pay for them. Even stability can create financial pressure if a population changes composition. For example, a stable population that becomes older and poorer can require new government programs with expensive start-up costs and operating costs that are more expensive than the current service levels. SEMCOG's projections show an 83 percent increase in the City population age 65 or older and a 53 percent decrease in the City population age 1-17 over the next 25-30 years. Overall, as the population ages, the persons per household is expected to decrease to 1.89.

Financial Forecasting - In order to better understand the financial condition of the City, it will become increasingly important to develop an ongoing financial forecasting model. I believe this financial forecasting model should at minimum parallel the City's CIP six-year time frame. The end result of this forecasting model should be intended to communicate what's likely to happen in the future based on where the City is today and where it appears to be heading. The preparation of a reasonably complete forecast will allow the City to look at its options and prudently plan and act accordingly. The first step in this process will be to evaluate if existing staff resources can accomplish this project or if contractual assistance may be needed to develop and maintain the model with staff assistance.

Accounting and Financial Reporting Resources - Since GASB No. 34 was issued in 1999, the GASB has issued 11 new statements, of which the majority are amendments and clarifications to GASB No. 34. However, the GASB has also issued new statements regarding disclosures of deposit and investment risk and the reporting of other postemployment benefits. Similar to the demands that GASB No. 34 imposed on the City to increase its internal accounting resources, these new accounting statements will require similar increases in accounting workload.

In addition, although the City has made recent incremental strides in working toward the ultimate goal of receiving the GFOA's Certificate of Achievement for Excellence in Financial Reporting and the Distinguished Budget Presentation Award, much more work is still needed to be in position to apply for these awards within the next few years.

To meet these additional demands and those of the development of a financial forecasting model, as outlined above, I believe there is a need to evaluate the existing staff resources to determine if additional training and education alone can meet these new requirements and workloads, or, in addition to staff development, if the structure and organization of the Finance Department will need to be changed to meet these new challenges.

Independent Audit

The City Charter requires an annual audit of all accounts of the City by certified public accountants selected by the City Council. This requirement has been complied with and the report of Plante & Moran, PLLC, certified public accountants, is included herein. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Brighton for the fiscal year ended June 30, 2004 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Brighton's financial statements for the fiscal year ended June 30, 2004 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Acknowledgments

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department, as well as the advice from Plante & Moran, PLLC. I wish to express my sincere appreciation to all members of the department who assisted and contributed to its preparation. I would also like to express my thanks to the City Manager, the department directors, and each of you for your interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



David C. Gajda
Finance Director

Independent Auditor's Report

To the City Council
City of Brighton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brighton, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Brighton, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Brighton, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Brighton, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Brighton, Michigan's basic financial statements. The accompanying introductory section, other supplemental information, and statistical and continuing disclosures, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The introductory section, budgetary comparison schedules, and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

As described in Note 12, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

September 17, 2004

City of Brighton, Michigan

Management's Discussion and Analysis

As the Finance Director of the City of Brighton, I offer readers of the City of Brighton's financial statements this narrative overview and analysis of the financial activities of the City of Brighton for the fiscal year ended June 30, 2004. I encourage readers to consider the information presented here in conjunction with additional information that I have furnished in my letter of transmittal, which can be found on pages i-viii of this report.

Financial Highlights

- The assets of the primary government and component units of the City of Brighton exceeded its liabilities at the close of the most recent fiscal year by \$59,223,245 (net assets). Of this amount, \$9,549,145 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,222,114. Approximately two-thirds of this increase is attributable to a one-time infusion of resources from connection fees and developer contributions.
- As of the close of the current fiscal year, the City of Brighton's governmental funds reported combined ending fund balances of \$2,772,937, a decrease of \$344,598 in comparison with the prior year. Approximately 88 percent of the fund balance is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,647,746, or 30 percent of total General Fund operating expenditures.
- The City of Brighton's total debt (primary government and component units) increased by \$101,988 (.35 percent) during the current fiscal year. The key factor in this increase was the issuance of \$2,050,000 of new debt mostly offset by the annual maturity of pre-existing debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Brighton's basic financial statements. The City of Brighton's basic financial statements currently comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City of Brighton's finances, in a manner similar to a private sector business.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

The statement of net assets presents information on all of the City of Brighton's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Brighton is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Brighton that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Brighton include general government, public safety, community development, and public services. The business-type activities of the City of Brighton include the water and sewer utility operations.

The government-wide financial statements include not only the City of Brighton itself (known as the primary government), but also a legally separate Downtown Development Authority and a legally separate Local Development Finance Authority, for which the City of Brighton is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-15 of this report.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Brighton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Brighton can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information is useful in evaluating the City's near-term financing requirements.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Brighton currently maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balance for the General Fund, Major Street Fund, Local Street Fund, and Capital Improvement Fund, which all are considered to be major funds; and for the two Street Debt Funds and Building Authority Fund, which are considered to be nonmajor funds.

The City of Brighton adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund in the required supplemental information to demonstrate compliance with this budget. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Proprietary Funds - The City of Brighton maintains one type of propriety fund, which is an Enterprise Fund used to report and account for its Utilities (Water and Sewer) Fund operations. The Utilities Fund (which is considered a major fund) is used to report the same functions presented as business-type activities in the government-wide financial statements, but only in more detail. The proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary Funds - Fiduciary funds are intended to be used to account for resources held for the benefit of parties outside the City government organization. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Brighton's own programs. The accounting used for fiduciary funds is much like that of propriety funds. The City of Brighton maintains two fiduciary funds, which are Agency Funds: one for Current Tax Collections and the other for Delinquent Personal Property Tax Collections. The basic fiduciary fund financial statement can be found on page 24 of this report.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-51 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Brighton's budgetary comparisons with actual for its General Fund and major Special Revenue Funds. Required supplementary information can be found on pages 52-55 of this report.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. As shown below, for the year ended June 30, 2004, assets exceeded liabilities by \$59,223,245.

By far, the largest portion of the City of Brighton's net assets (81 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Brighton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Brighton's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities	Business-type Activities	Component Units	Total
Assets				
Current assets	\$ 6,508,168	\$ 6,549,515	\$ 1,799,222	\$ 14,856,905
Capital assets	<u>31,335,086</u>	<u>39,357,034</u>	<u>4,395,465</u>	<u>75,087,585</u>
Total assets	37,843,254	45,906,549	6,194,687	89,944,490
Liabilities				
Current liabilities	1,433,166	1,508,123	454,176	3,395,465
Long-term liabilities	<u>8,993,017</u>	<u>13,627,001</u>	<u>4,705,762</u>	<u>27,325,780</u>
Total liabilities	<u>10,426,183</u>	<u>15,135,124</u>	<u>5,159,938</u>	<u>30,721,245</u>
Net Assets				
Invested in capital assets -				
Net of related debt	22,255,092	24,979,909	1,381,483	48,616,484
Restricted	1,057,616	-	-	1,057,616
Unrestricted (deficit)	<u>4,104,363</u>	<u>5,791,516</u>	<u>(346,734)</u>	<u>9,549,145</u>
Total net assets	<u>\$ 27,417,071</u>	<u>\$ 30,771,425</u>	<u>\$ 1,034,749</u>	<u>\$ 59,223,245</u>

An additional portion of the City of Brighton's net assets (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$9,549,145) may be used to meet the City's ongoing obligations to citizens and creditors.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

At the end of the current fiscal year, the City of Brighton is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its primary government and each of its separate activities, i.e., the governmental and business-type activities. On the other hand, the component units unrestricted net assets is a negative balance because in particular the City's LDFA has debt outstanding for public infrastructure which has been transferred to the primary government.

Governmental Activities - As shown below, governmental activities increased the City of Brighton's net assets by \$423,535, thereby accounting for 35 percent of the total growth in the net assets of the City. The largest element of this increase is the result of \$249,708 of a transfer from the Utilities Fund to Local Street Fund for capital projects.

Business-type Activities - Business-type activities increased the City of Brighton's net assets by \$774,027, thereby accounting for 63 percent of the total growth in the net assets of the City. The largest element of this increase is the result of a one-time infusion of resources from connection fees and developer contributions.

Component Units - Component units increased the City of Brighton's net assets by \$24,552, thereby accounting for 2 percent of the total growth in net assets of the City.

	Governmental Activities	Business-type Activities	Component Units	Total
Revenue				
Program revenue:				
Charges for services	\$ 1,003,435	\$ 2,602,598	\$ -	\$ 3,606,033
Operating grants and contributions	699,588	-	-	699,588
Capital grants and contributions	10,812	2,623,148	20,097	2,654,057
General revenue:				
Property taxes	4,946,662	-	539,072	5,485,734
State-shared revenue	625,134	-	-	625,134
Unrestricted investment earnings	255,485	55,679	20,998	332,162
Other	289,143	-	790	289,933
Transfers	249,708	(249,708)	-	-
Total revenue	8,079,967	5,031,717	580,957	13,692,641

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities	Business-type Activities	Component Units	Total
Program Expenses				
General government	\$ 1,636,112	\$ -	\$ -	\$ 1,636,112
Public safety	1,790,068	-	-	1,790,068
Public services	3,159,268	-	556,405	3,715,673
Community development	613,794	-	-	613,794
Interest on long-term debt	457,190	-	-	457,190
Water and sewer	-	4,257,690	-	4,257,690
Total program expenses	<u>7,656,432</u>	<u>4,257,690</u>	<u>556,405</u>	<u>12,470,527</u>
Change in Net Assets	<u><u>\$ 423,535</u></u>	<u><u>\$ 774,027</u></u>	<u><u>\$ 24,552</u></u>	<u><u>\$ 1,222,114</u></u>

The City's Funds

Governmental Funds - The focus of the City of Brighton's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Brighton's financing requirements. In particular, unreserved undesignated fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Brighton's governmental funds reported combined ending fund balances of \$2,772,937, a decrease of \$344,598 in comparison with the prior year. Approximately 71 percent of this total amount (\$1,969,300) constitutes unreserved, undesignated fund balance, which is available for investment and/or spending at the City's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to (1) liquidate contracts and purchase orders of the prior period or for subsequent year expenditures, and (2) be reserved for contingent liabilities and other restricted purposes.

The General Fund is the chief operating fund of the City of Brighton. At the end of the current fiscal year, unreserved undesignated fund balance of the General Fund was \$1,309,888, while the total unreserved fund balance reached \$1,647,746. As a measure of the General Fund's liquidity, it may be useful to compare the total unreserved fund balance to total fund operating expenditures. Unreserved fund balance represents 30 percent of total General Fund operating expenditures.

The total fund balance of the City of Brighton's General Fund decreased by \$29,952 during the current fiscal year. The primary factors for this decrease were less revenue sharing from the State of Michigan and less interest earnings on investments due to very low market yields.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

At the end of the current fiscal year, unreserved undesignated fund balance of the Special Revenue Funds (Major and Local Street Funds) was \$659,412, while the total unreserved fund balance was \$727,868. Unreserved fund balance represents 34 percent of total Special Revenue Fund expenditures.

At the end of the current fiscal year, the Debt Service Funds (Street Voted and Street Non-voted Debt Funds) had a total fund balance of \$0.

At the end of the current fiscal year, fund balance of the Capital Projects Fund (Capital Improvement and Building Authority Funds) was \$67,575, which is designated for subsequent year expenditures.

Proprietary Funds - The City of Brighton's Utilities Enterprise Fund provides the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Utilities Fund at the end of the year amounted to \$5,791,517. Although the Utilities Fund had a \$994,675 operating loss because primarily the operating revenue does not cover the depreciation expense, this fund generated a net income of \$774,027. This net income, or growth in net assets, is directly attributable to significant one-time collections of connection fees and developer contributions, which more than offset the operating loss.

General Fund Budgetary Highlights

Differences between the original budget and final amended budget can be briefly summarized as follows:

- The \$102,731 or 1.5 percent decrease in total revenue from the original budget reflected primarily a net of less than expected revenue sharing, federal grants, and interest earnings, partially offset by more than anticipated tax revenue and building related permit fees.
- The \$120,019 increase in total expenditures reflects a 2 percent increase over the original budget, caused primarily by more than anticipated expenditures in the public safety, public services, and community development activity budgets, partially offset by cumulative less than anticipated expenditures in the various general government activity budgets.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

Capital Assets - As shown below, the City of Brighton's investment in capital assets for its primary government (governmental and business-type activities) as of June 30, 2004 amounts to \$70,692,120 (net of accumulated depreciation). This investment in capital assets includes land (including rights-of-way), buildings and system, improvements, machinery and equipment, park facilities, streets, and bridges. The City of Brighton's investment in capital assets for its component units (DDA) as of June 30, 2004 amounts to \$4,395,465 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and improvements. The total increase in the City of Brighton's investment in capital assets for the current year was 3 percent (a 2.5 percent increase in governmental activities, a 3.9 percent increase for business-type activities, and a 1 percent increase for its component units).

Capital Assets (Net of Depreciation)

	Primary Government			Total
	Governmental Activities	Business-type Activities	Component Units	
Land	\$ 13,530,821	\$ 157,362	\$ 578,764	\$ 14,266,947
Buildings and system	2,837,440	21,592,147	626,903	25,056,490
Machinery and equipment	1,249,057	411,808	3,189,798	4,850,663
Infrastructure	13,717,768	17,118,779	-	30,836,547
Construction in progress	-	76,938	-	76,938
Total	<u>\$ 31,335,086</u>	<u>\$ 39,357,034</u>	<u>\$ 4,395,465</u>	<u>\$ 75,087,585</u>

Major capital assets acquired during the current fiscal year included the following:

- **Governmental Activities** - Roadway and street-related improvements for the W. Main Street Roundabout, St. Paul, Leith and Church Streets project, Grand River Avenue project, Grand River Mast Arm Traffic Signal, Grand River Traffic Signal Interconnect project, and the dedication of Brighton Interior Drive to the City
- **Business-type Activities** - Utility-related improvements including the Pierce Water Plant Rehabilitation project, Challis Water Plant Garage, Residential Curb and Gutter projects, utilities related to other roadway and street projects, and the start of the Pine Creek Water Storage Tank project

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

- **Component Units** - DDA improvements, including the completion of the East Block Development project, overall parking lot security enhancements, and the Dasein Art Sculpture.

Additional information on the City of Brighton's capital assets can be found in Note 5 on pages 38-41 of this report.

Long-term Debt - As shown below, at the end of the current fiscal year, the City of Brighton had total debt outstanding of \$28,822,386. Of this total, \$16,082,386, or 56 percent, comprises debt backed by the full faith and credit of the City, including \$1,284,406 of Revenue Bonds; \$3,940,000, or 14 percent, is special assessment debt for which the City is liable in the event of default by the property owners subject to the assessment; and \$8,800,000, or 30 percent, comprises revenue bonds backed by the revenue of the City's Utility Fund. A total of \$9,372,069, or 33 percent, of the total debt is governmental activities debt, \$14,447,336, or 50 percent, is business-type activities debt, and the remaining \$5,002,981, or 17 percent, is component unit debt.

Outstanding Debt (General Obligation, Special Assessment, and Revenue Debt)

	Primary Government			Total
	Governmental Activities	Business-type Activities	Component Units	
General Obligation Bonds/ Notes	\$ 5,712,069	\$ 4,082,930	\$ 5,002,981	\$ 14,797,980
Special Assessment Bonds	3,660,000	280,000	-	3,940,000
Revenue bonds with a general obligation pledge	-	1,284,406	-	1,284,406
Revenue bonds	-	8,800,000	-	8,800,000
Total	<u>\$ 9,372,069</u>	<u>\$ 14,447,336</u>	<u>\$ 5,002,981</u>	<u>\$ 28,822,386</u>

The City of Brighton's total debt increased by \$101,988 (.35 percent) during the current fiscal year. The key factor for this increase was the issuance of \$1,520,000 of revenue bonds through the Michigan Municipal Bond Authority for the Pierce Water Plant Rehabilitation project and \$530,000 of Capital Improvement Bonds for various governmental activities projects, mostly offset by annual maturities of pre-existing debt.

The City of Brighton maintains non-insured ratings as follows: A+ from Standard & Poor's, A1/A2 rating from Moody's, and an A+ from Fitch.

City of Brighton, Michigan

Management's Discussion and Analysis (Continued)

State statutes limit the amount of general obligation debt a city may issue to 10 percent of its total assessed valuation. The current debt limitation for the City of Brighton is \$40,911,740, which is significantly in excess of the City's total net debt (total debt less special assessment, revenue, and MTF debt) of \$15,983,650. Therefore, the legal debt margin, or what the City could legally add to its outstanding debt at June 30, 2004, was \$24,928,090.

Additional information on the City of Brighton's long-term debt can be found in Note 7 on pages 43-47 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Brighton was 3.6 percent on June 30, 2004, which is a decrease from the rate of 3.9 percent a year ago. This compares favorably to the county's average unemployment rate of 3.8 percent, the state's average unemployment rate of 6.8 percent, and the national average unemployment rate of 5.8 percent.
- The Consumer Price Index (CPI) for our region (Detroit/Ann Arbor/Flint) was 1.6 percent for the year ended June 30, 2004, which is a decrease from the CPI of 2.1 percent a year ago. This compares favorably to the Midwest Urban average CPI rate of 2.7 percent and the national CPI rate of 3.3 percent.

The trends in these economic factors will be considered in preparing the City of Brighton's fiscal year 2005-2006 budget.

During the current fiscal year, unreserved fund balance in the General Fund decreased by \$54,880 to \$1,647,746. The City of Brighton has designated \$337,858 of this amount for future subsequent year expenditures and property tax contingencies. The remaining unreserved balance of \$1,309,888 is undesignated.

The City's utility user fees and connection fees were increased for the fiscal year 2004-2005 budget year. The user fees were increased by an average of 4 percent and the connection fees were increased by an average of 6 percent for all customers. The user fee rate increase was necessary to support the ongoing operations and maintenance of the City's utility systems, while the connection fee rate increase was necessary to support the future replacement of existing capital assets from new and future economic development.

Contacting the City's Management

This financial report is designed to provide a general overview of the City of Brighton's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to David C. Gajda, Finance Director, City of Brighton, 200 N. First Street, Brighton, MI 48116.

City of Brighton, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 2,580,546	\$ 4,724,457	\$ 7,305,003	\$ 600,429
Receivables - Net (Note 4)	3,635,547	1,476,731	5,112,278	14,553
Restricted assets (Note 8)	292,075	70,210	362,285	1,184,000
Inventories	-	29,017	29,017	-
Prepaid costs and other assets	-	249,100	249,100	240
Capital assets - Not being depreciated (Note 5)	13,530,821	234,300	13,765,121	578,764
Capital assets - Net of depreciation (Note 5)	17,804,265	39,122,734	56,926,999	3,816,701
Total assets	37,843,254	45,906,549	83,749,803	6,194,687
Liabilities				
Accounts payable	128,484	434,600	563,084	142,403
Accrued and other liabilities	325,593	151,323	476,916	-
Deferred revenue	-	-	-	14,553
Noncurrent liabilities (Note 7):				
Due within one year	979,089	922,200	1,901,289	297,220
Due in more than one year	8,993,017	13,627,001	22,620,018	4,705,762
Total liabilities	10,426,183	15,135,124	25,561,307	5,159,938
Net Assets				
Invested in capital assets - Net of related debt	22,255,092	24,979,909	47,235,001	1,381,483
Restricted:				
Public services	727,868	-	727,868	-
Cemetery care	327,659	-	327,659	-
Economic development	2,089	-	2,089	-
Unrestricted	4,104,363	5,791,516	9,895,879	(346,734)
Total net assets	\$ 27,417,071	\$ 30,771,425	\$ 58,188,496	\$ 1,034,749

City of Brighton, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,636,112	\$ 829,734	\$ -	\$ -
Public safety	1,790,068	100,484	1,212	-
Public services	3,159,268	73,217	698,376	10,812
Community development	613,794	-	-	-
Interest on long-term debt	457,190	-	-	-
Total governmental activities	7,656,432	1,003,435	699,588	10,812
Business-type activities - Water and sewer	4,257,690	2,602,598	-	2,623,148
Total primary government	<u>\$ 11,914,122</u>	<u>\$ 3,606,033</u>	<u>\$ 699,588</u>	<u>\$ 2,633,960</u>
Component units:				
Downtown Development Authority	\$ 419,359	\$ -	\$ -	\$ 20,097
Local Development Finance Authority	137,046	-	-	-
Total component units	<u>\$ 556,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,097</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Other				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (806,378)	\$ -	\$ (806,378)	\$ -
(1,688,372)	-	(1,688,372)	-
(2,376,863)	-	(2,376,863)	-
(613,794)	-	(613,794)	-
(457,190)	-	(457,190)	-
(5,942,597)	-	(5,942,597)	-
-	968,056	968,056	-
(5,942,597)	968,056	(4,974,541)	-
-	-	-	(399,262)
-	-	-	(137,046)
-	-	-	(536,308)
4,946,662	-	4,946,662	539,072
625,134	-	625,134	-
255,485	55,679	311,164	20,998
289,143	-	289,143	790
249,708	(249,708)	-	-
6,366,132	(194,029)	6,172,103	560,860
423,535	774,027	1,197,562	24,552
26,993,536	29,997,398	56,990,934	1,010,197
\$ 27,417,071	\$ 30,771,425	\$ 58,188,496	\$ 1,034,749

City of Brighton, Michigan

	Major Funds			
	General	Major Street	Local Street	Capital Improvement
Assets				
Cash and investments	\$ 2,115,005	\$ 350,924	\$ 100,012	\$ 14,605
Receivables:				
Delinquent taxes	49,567	-	-	-
Special assessments	-	3,344,617	-	-
Due from other governmental units	163,584	59,607	18,172	-
Restricted assets	-	224,075	-	68,000
Total assets	<u>\$ 2,328,156</u>	<u>\$ 3,979,223</u>	<u>\$ 118,184</u>	<u>\$ 82,605</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 88,532	\$ 24,261	\$ 661	\$ 15,030
Accrued liabilities	156,737	-	-	-
Deposits	55,826	-	-	-
Deferred revenue	49,567	3,344,617	-	-
Total liabilities	350,662	3,368,878	661	15,030
Fund Balances				
Reserved for:				
Cemetery care	327,659	-	-	-
Economic development	2,089	-	-	-
Unreserved:				
Designated for subsequent years' expenditures	252,858	-	68,456	67,575
Designated for property tax contingencies	85,000	-	-	-
Undesignated	1,309,888	610,345	49,067	-
Total fund balances	1,977,494	610,345	117,523	67,575
Total liabilities and fund balances	<u>\$ 2,328,156</u>	<u>\$ 3,979,223</u>	<u>\$ 118,184</u>	<u>\$ 82,605</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds, net of accumulated depreciation

Receivables are expected to be collected over several years, and are not available to pay for current year expenditures

Long-term liabilities are not due and payable in the current period and are not reported in the funds

Net assets of governmental activities

**Governmental Funds
Balance Sheet
June 30, 2004**

Nonmajor Funds			Total
Street Voted Debt	Street Non-Voted Debt	Building Authority	Governmental Funds
\$ -	\$ -	\$ -	\$ 2,580,546
-	-	-	49,567
-	-	-	3,344,617
-	-	-	241,363
-	-	-	292,075
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,508,168</u>
\$ -	\$ -	\$ -	\$ 128,484
-	-	-	156,737
-	-	-	55,826
-	-	-	3,394,184
-	-	-	3,735,231
-	-	-	327,659
-	-	-	2,089
-	-	-	388,889
-	-	-	85,000
-	-	-	1,969,300
-	-	-	2,772,937
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

31,335,086

3,394,184

(10,085,136)

\$ 27,417,071

City of Brighton, Michigan

	Major Funds			
	General	Major Street	Local Street	Capital Improvement
Revenue				
Property taxes	\$ 4,946,662	\$ -	\$ -	\$ -
State-shared	625,134	331,220	106,925	-
Federal grants	1,212	260,231	-	-
Charges for services	399,748	-	-	-
Special assessment	-	273,234	-	-
Fines and penalties	100,484	-	-	-
Licenses and permits	429,986	-	-	-
Interest	45,028	209,547	890	20
Other	238,863	66,704	6,513	50,281
Total revenue	6,787,117	1,140,936	114,328	50,301
Expenditures				
Current:				
General government	1,507,881	-	-	-
Public safety	1,675,356	-	-	-
Public services	1,739,602	1,528,174	422,755	-
Community development	610,250	-	-	-
Capital outlay	-	-	-	436,533
Debt service	-	-	-	283,476
Total expenditures	5,533,089	1,528,174	422,755	720,009
Excess of Revenue Over (Under) Expenditures	1,254,028	(387,238)	(308,427)	(669,708)
Other Financing Sources (Uses)				
Transfers in	-	-	249,708	666,973
Transfers out	(1,283,980)	(395,954)	-	-
Issuance of debt	-	459,690	-	70,310
Total other financing sources (uses)	(1,283,980)	63,736	249,708	737,283
Net Change in Fund Balances	(29,952)	(323,502)	(58,719)	67,575
Fund Balances - Beginning of year	2,007,446	933,847	176,242	-
Fund Balances - End of year	<u>\$ 1,977,494</u>	<u>\$ 610,345</u>	<u>\$ 117,523</u>	<u>\$ 67,575</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2004

Nonmajor Funds			Total Governmental Funds
Street Voted Debt	Street Non-Voted Debt	Building Authority	
\$ -	\$ -	\$ -	\$ 4,946,662
-	-	-	1,063,279
-	-	-	261,443
-	-	-	399,748
-	-	-	273,234
-	-	-	100,484
-	-	-	429,986
-	-	-	255,485
-	-	-	362,361
-	-	-	8,092,682
-	-	-	1,507,881
-	-	-	1,675,356
-	-	-	3,690,531
-	-	-	610,250
-	-	-	436,533
381,588	548,623	82,750	1,296,437
381,588	548,623	82,750	9,216,988
(381,588)	(548,623)	(82,750)	(1,124,306)
381,588	548,623	82,750	1,929,642
-	-	-	(1,679,934)
-	-	-	530,000
381,588	548,623	82,750	779,708
-	-	-	(344,598)
-	-	-	3,117,535
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,772,937</u>

City of Brighton, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (344,598)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and recorded as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense

780,065

Loss on sale on fixed assets. Governmental funds report proceeds from sale of fixed assets without regard to book value of those assets

(7,657)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end

(262,422)

Bond proceeds received. Governmental funds report proceeds as revenues when received rather than capitalizing the long-term debt

(530,000)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

831,006

Increases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities

(51,100)

Interest expense accrued on long-term debt

8,241

Change in Net Assets of Governmental Activities \$ 423,535

City of Brighton, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

	Enterprise Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 4,724,457
Receivables:	
Customer	1,189,240
Special assessments	287,491
Inventories	29,017
Total current assets	6,230,205
Noncurrent assets:	
Restricted assets	70,210
Other assets	249,100
Capital assets	39,357,034
Total noncurrent assets	39,676,344
Total assets	45,906,549
Liabilities	
Current liabilities:	
Accounts payable	434,600
Accrued and other liabilities	151,323
Current portion of long-term debt	922,200
Total current liabilities	1,508,123
Noncurrent liabilities:	
Provision for compensated absences	101,865
Long-term debt - Net of current portion	13,525,136
Total noncurrent liabilities	13,627,001
Total liabilities	15,135,124
Net Assets	
Invested in capital assets - Net of related debt	24,979,908
Unrestricted	5,791,517
Total net assets	\$ 30,771,425

City of Brighton, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise Fund
Operating Revenue	
Sales	\$ 2,107,713
Penalties	31,957
Tap charges and other	<u>462,928</u>
Total operating revenue	2,602,598
Operating Expenses	
Salaries and fringe benefits	1,255,299
Other purchased services	282,168
Purchased property services	103,616
Professional and technical services	100,010
Supplies	172,531
Depreciation	1,320,638
Amortization	26,529
Property	53,745
Utilities	280,161
Other	<u>2,576</u>
Total operating expenses	<u>3,597,273</u>
Operating Loss	(994,675)
Nonoperating Revenue (Expense)	
Interest income	55,679
Interest expense	<u>(660,417)</u>
Total nonoperating expense	<u>(604,738)</u>
Loss - Before operating transfers and contributions	(1,599,413)
Operating Transfers - Transfers out	(249,708)
Contributions	<u>2,623,148</u>
Net Income	774,027
Net Assets - Beginning of year	<u>29,997,398</u>
Net Assets - End of year	<u><u>\$ 30,771,425</u></u>

City of Brighton, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Enterprise Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 2,152,563
Payments to suppliers	(1,333,126)
Payments to employees	(1,132,527)
Net cash used in operating activities	(313,090)
Cash Flows from Noncapital Financing Activities - Operating transfers out	(249,708)
Cash Flows from Capital and Related Financing Activities	
Contributions received	2,179,648
Principal paid on debt	(819,823)
Proceeds from issuance of new debt	1,284,406
Acquisition and construction of capital assets	(2,356,471)
Interest paid on debt	(660,417)
Net cash used in capital and related financing activities	(372,657)
Cash Flows from Investing Activities - Interest received on investments	55,679
Net Decrease in Cash and Cash Equivalents	(879,776)
Cash and Cash Equivalents - Beginning of year	5,674,443
Cash and Cash Equivalents - End of year	<u><u>\$ 4,794,667</u></u>
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and investments	\$ 4,724,457
Restricted investments (Note 3)	70,210
Total cash and cash equivalents	<u><u>\$ 4,794,667</u></u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (994,675)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation expense	1,320,637
Changes in assets and liabilities:	
Accounts receivable	(449,745)
Inventories	29,601
Accounts payable	(237,551)
Accrued and other liabilities	18,643
Net cash used in operating activities	<u><u>\$ (313,090)</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2004, developers constructed water and sewer lines with an estimated value of \$443,500 and donated them to the City's Enterprise Fund.

City of Brighton, Michigan

Fiduciary Funds Statement of Assets and Liabilities June 30, 2004

	Agency Fund - Tax Collection
Assets - Cash and equivalents	\$ 262
Liabilities - Accounts payable	\$ 262

City of Brighton, Michigan

Component Units Statement of Net Assets June 30, 2004

	Downtown Development Authority	Local Development Finance Authority	Totals
Assets			
Cash and investments	\$ 461,935	\$ 138,494	\$ 600,429
Receivables - Delinquent taxes	14,079	474	14,553
Other	240	-	240
Restricted assets	1,184,000	-	1,184,000
Capital assets	4,395,465	-	4,395,465
Total assets	6,055,719	138,968	6,194,687
Liabilities			
Accounts payable	141,752	651	142,403
Deferred tax revenue	14,079	474	14,553
Long-term debt	4,197,982	805,000	5,002,982
Total liabilities	4,353,813	806,125	5,159,938
Net Assets			
Investment in capital assets - Net of related debt	1,381,483	-	1,381,483
Unrestricted (deficit)	320,423	(667,157)	(346,734)
Total net assets	<u>\$ 1,701,906</u>	<u>\$ (667,157)</u>	<u>\$ 1,034,749</u>

City of Brighton, Michigan

		<u>Program Revenues</u>
	<u>Expenses</u>	<u>Operating Grants and Contributions</u>
Downtown Development Authority	\$ 419,359	\$ 20,097
Local Development Finance Authority	<u>137,046</u>	<u>-</u>
Total governmental activities	<u>\$ 556,405</u>	<u>\$ 20,097</u>

General revenues:

Taxes
Interest
Other

Total general revenues

Change in Net Assets (Deficit)

Net Assets (Deficit) - Beginning of year

Net Assets (Deficit) - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Local Development Authority	Total
\$ (399,262)	\$ -	\$ (399,262)
<u>-</u>	<u>(137,046)</u>	<u>(137,046)</u>
(399,262)	(137,046)	(536,308)
471,477	67,595	539,072
19,398	1,600	20,998
<u>790</u>	<u>-</u>	<u>790</u>
<u>491,665</u>	<u>69,195</u>	<u>560,860</u>
92,403	(67,851)	24,552
<u>1,609,503</u>	<u>(599,306)</u>	<u>1,010,197</u>
<u><u>\$ 1,701,906</u></u>	<u><u>\$ (667,157)</u></u>	<u><u>\$ 1,034,749</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Brighton, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Brighton, Michigan:

Reporting Entity

The City of Brighton, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Discretely Presented Component Units

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of 13 individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.
- b. The Local Development Financing Authority was created to encourage local economic development to prevent conditions of unemployment and promote economic growth in the community. The Authority's governing body, consisting of 10 individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Enterprise Fund and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds and the Agency Fund utilize the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Note I - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major and Local Streets Funds - Major and Local Streets Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Capital Improvement Fund - The Capital Improvement Fund is a Capital Projects Fund used to account for the development of non-street related governmental activity capital improvements and related debt of the City.

The City reports the following major proprietary funds:

Utility Fund - The Utility Fund accounts for the results of operations that provide a service to citizens that are financed primarily by a user charge for the provision of that service.

Additionally, the City reports the following nonmajor funds:

Street Voted Debt and Street Non-Voted Debt Funds - Street Voted Debt and Street Non-Voted Debt Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund.

Building Authority Fund - The Building Authority Fund is a Capital Projects Fund used to account for the development of governmental activity capital facility/building improvements and related debt of the City. This fund was created in 1994 by resolution of the City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity or an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected to also follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on February 28 of the following year, at which time penalties and interest are assessed.

The City's 2003 tax is levied and collectible on July 1, 2003 and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2003 taxable valuation of the City totaled \$328,690,500 (a portion of which is captured by the LDFA and DDA), on which taxes levied consisted of 14.8872 mills for operating purposes, and 1.1622 mills for debt service. This resulted in \$4,893,281 for operating and \$382,004 for debt service (a portion of which is captured by the LDFA and DDA). These amounts are recognized in the General Fund as tax revenue. Revenues recognized related to the debt service levy are then transferred to the Street Voted Debt Service Fund to properly reflect the debt service levy in that fund.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of one year or less when acquired. Investments are stated at fair value. Pooled investment income from various funds is generally allocated to each fund using a weighted average method.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the City of Brighton, Michigan's water and sewer lines. Unspent bond proceeds of the Capital Projects Funds are required to be set aside for construction. These amounts have also been classified as restricted assets.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	15 to 20 years
Water and sewer transmission lines	40 to 50 years
Retention/Equilization basin	40 to 50 years
Building/Treatment facilities	40 to 50 years
Buildings and improvements	40 to 50 years
Machinery and equipment	3 to 15 years
Equipment and other	3 to 15 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The unrestricted fund deficit in the Local Development Finance Authority is due to debt issued for assets constructed and subsequently transferred to the City. Tax captures in future years are intended to pay the related debt service.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2003		\$ (143,647)
Current year building permit revenue		337,614
Related expenses:		
Direct costs	\$ 276,275	
Estimated indirect costs	<u>20,721</u>	
Total construction code expenses		<u>296,996</u>
Current year revenue in excess of expenditures		<u>40,618</u>
Cumulative shortfall at June 30, 2004		<u>\$ (103,029)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has designated 13 banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The City of Brighton, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Component Units
Cash and cash equivalents	\$ 895,654	\$ 1,273,939	\$ 2,169,593	\$ 600,429
Investments	1,684,892	3,450,518	5,135,410	-
Restricted assets	292,075	70,210	362,285	1,184,000
Total	<u>\$ 2,872,621</u>	<u>\$ 4,794,667</u>	<u>\$ 7,667,288</u>	<u>\$ 1,784,429</u>

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 2,531,078	\$ 1,005,281
Investments in securities, mutual funds, and similar vehicles	5,135,410	779,148
Petty cash or cash on hand	800	-
Total	<u>\$ 7,667,288</u>	<u>\$ 1,784,429</u>

Deposits

The bank balance of the City's deposits is \$2,536,128, of which \$1,500,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of \$1,005,281, of which \$400,000 was covered by federal depository insurance.

Investments

To the extent that cash from various funds has been pooled in an investment, related investment income is allocated to each fund based on relative participation in the pool, except that Agency Funds investment earnings are allocated to the General Fund.

The City's investments during the year consisted solely of bank investment pools, interlocal agreement investment pools, and mutual funds. There was \$5,135,410 invested in such funds at June 30, 2004. Investments are normally categorized to give an indication of the level of risk assumed by the City; however, these funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The City believes that the investment in these funds comply with the investment authority noted above.

City of Brighton, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Receivables

Receivables as of year end for the City, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street Fund	Local Street Fund	Total
Receivables:				
Taxes	\$ 49,567	\$ -	\$ -	\$ 49,567
Special assessments	-	3,344,617	-	3,344,617
Intergovernmental	<u>163,584</u>	<u>59,607</u>	<u>18,172</u>	<u>241,363</u>
Net receivables	<u>\$ 213,151</u>	<u>\$ 3,404,224</u>	<u>\$ 18,172</u>	<u>\$ 3,635,547</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the only component of deferred revenue was as follows:

	Unavailable
Delinquent property taxes	\$ 49,567
Special assessments	<u>3,344,617</u>
Total	<u>\$ 3,394,184</u>

City of Brighton, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated -				
Land, including right-of-ways	\$ 13,530,821	\$ -	\$ -	\$ 13,530,821
Capital assets being depreciated:				
Roads and sidewalks	18,846,472	1,704,409	-	20,550,881
Buildings and improvements	4,041,798	29,192	-	4,070,990
Equipment and other	2,504,697	403,521	104,200	2,804,018
Subtotal	25,392,967	2,137,122	104,200	27,425,889
Accumulated depreciation:				
Roads and sidewalks	5,861,376	971,737	-	6,833,113
Buildings and improvements	1,134,875	98,675	-	1,233,550
Equipment and other	1,364,859	286,645	96,543	1,554,961
Subtotal	8,361,110	1,357,057	96,543	9,621,624
Net capital assets being depreciated	17,031,857	780,065	7,657	17,804,265
Net capital assets	\$ 30,562,678	\$ 780,065	\$ 7,657	\$ 31,335,086

City of Brighton, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2003	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated:					
Land	\$ 7,362	\$ -	\$ 150,000	\$ -	\$ 157,362
Construction in progress	10,000	(10,000)	76,938	-	76,938
Subtotal	17,362	(10,000)	226,938	-	234,300
Capital assets being depreciated:					
Water and sewer transmission lines	19,868,216	-	713,712	-	20,581,928
Retention/Equalization basin	1,969,034	-	277,005	-	2,246,039
Buildings/Treatment facilities	27,819,199	10,000	1,582,316	-	29,411,515
Machinery and equipment	1,039,648	-	-	-	1,039,648
Subtotal	50,696,097	10,000	2,573,033	-	53,279,130
Accumulated depreciation:					
Water and sewer transmission lines	4,945,039	-	504,221	-	5,449,260
Retention/Equalization basin	209,548	-	50,380	-	259,928
Buildings/Treatment facilities	7,127,467	-	691,901	-	7,819,368
Machinery and equipment	553,705	-	74,135	-	627,840
Subtotal	12,835,759	-	1,320,637	-	14,156,396
Net capital assets being depreciated	37,860,338	10,000	1,252,396	-	39,122,734
Net capital assets	\$ 37,877,700	\$ -	\$ 1,479,334	\$ -	\$ 39,357,034

City of Brighton, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Capital asset activity for the City of Brighton's component units for the year was as follows:

Component Units	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated - Land	\$ 578,764	\$ -	\$ -	\$ 578,764
Capital assets being depreciated:				
Buildings	1,246,516	107,409	-	1,353,925
Equipment and other	2,536,069	664,558	-	3,200,627
Subtotal	3,782,585	771,967	-	4,554,552
Accumulated depreciation:				
Buildings	577,223	149,799	-	727,022
Equipment and other	8,329	2,500	-	10,829
Subtotal	585,552	152,299	-	737,851
Net capital assets being depreciated	3,197,033	619,668	-	3,816,701
Net capital assets	<u>\$ 3,775,797</u>	<u>\$ 619,668</u>	<u>\$ -</u>	<u>\$ 4,395,465</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 65,657
Public safety	114,712
Public services	1,173,144
Community development	3,544
Total governmental activities	<u>\$ 1,357,057</u>

Depreciation expense for business-type activities was \$1,320,637.

Note 5 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects at year end. The projects include unspent Drinking Water Revolving Funds held on behalf of the City at the Michigan Municipal Bond Authority. At year end, the City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Wastewater Treatment Plant Expansion	\$ 7,589,869	\$ 20,000
Pierce Water Plant Rehabilitation	<u>638,777</u>	<u>70,210</u>
Total	<u>\$ 8,228,646</u>	<u>\$ 90,210</u>

In addition, the City has committed to construction projects that are scheduled to begin subsequent to year end, as follows:

	<u>Commitment</u>
Pinecreek Storage Tank	\$ 800,000
Residential Curb and Gutter	<u>775,262</u>
Total	<u>\$ 1,575,262</u>

Note 6 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Street Voted Debt Fund	\$ 381,588
General Fund	Street Non-Voted Debt Fund	152,669
General Fund	Capital Improvement Fund	666,973
General Fund	Building Authority Fund	82,750
Major Streets Fund	Street Non-Voted Debt Fund	395,954
Enterprise Fund	Local Street Fund	249,708
Total		<u>\$ 1,929,642</u>

The transfers from the General Fund to the Building Authority Fund and Capital Projects Fund represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations. The transfer from the Enterprise Fund to the Local Street Fund represents the Local Street Fund's portion of capital improvements related to a joint project that was funded by the Enterprise Fund.

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the City as of June 30, 2004:

	Governmental Activities	Business-type Activities
Capital Improvement Bonds General Obligation Limited Tax, 3.00% to 4.60%, dated August 13, 2003	\$ 530,000	\$ -
Special Assessment Limited Tax Bond, 3.50% to 5.00%, dated May 29, 2002	3,375,000	-
Street Bonds General Obligation Limited Tax, 3.50% to 5.00%, dated May 29, 2002	390,000	-
1990 Michigan Transportation Fund Bonds, 4.13%, dated May 1, 1990	70,000	-
1994 Michigan Transportation Fund Bonds, 4.75%, dated October 1, 1994	15,000	-
Special Assessment Limited Tax Street Bond, 4.75% to 5.60%, dated October 1, 1994	285,000	-
Street Bonds General Obligation Unlimited Tax, 5.00% to 5.80%, dated June 1, 1996	1,375,000	-
Building Authority General Obligation Limited Tax, 5.00% to 5.90%, dated August 1, 1996	1,000,000	-
Street Bonds General Obligation Unlimited Tax, 4.40% to 4.75%, dated October 1, 1996	1,625,000	-
1999 Michigan Transportation Fund Bonds, 5.00% to 7.00%, dated September 1, 1999	280,000	-
Installment loan - Property, 5.10%, dated April 6, 1999	192,166	-
Installment loan - Capital Improvement, 4.85%, dated November 20, 2000	234,903	-

Note 7 - Long-term Debt (Continued)

Outstanding Debt (Continued)

	Governmental Activities	Business-type Activities
2004 Drinking Water Revolving Funds, 2.125%, dated March 25, 2004	\$ -	\$ 1,284,406
Sewage Treatment Refunding General Obligation Bonds, 4.65% to 4.75%, dated March 1, 1997	-	720,000
1995 Special Assessment Bonds, 5.00% to 5.50%, dated July 1, 1993	-	280,000
Contract Payable - Livingston County Water Supply System, 6.00%, dated December 1, 1997	-	223,600
Contract Payable - Livingston County Water Project, 5.20% to 7.20%, dated September 1, 1998	-	587,330
Contract Payable - Livingston County Water Supply System, 4.20% to 5.00%, dated September 1, 1998	-	1,445,000
Contract Payable - Livingston County Water Supply System, 5.00% to 6.50%, dated September 1, 1998	-	1,107,000
Michigan Municipal Bond Authority - Wastewater Plant Expansion Revenue Bonds, 3.50% to 5.38 %, dated March 29, 2001	-	8,800,000
Compensated absences	600,037	101,865
Total	\$ 9,972,106	\$ 14,549,201

Note 7 - Long-term Debt (Continued)

Outstanding Debt (Continued)

The following is a summary of the debt outstanding of the component units as of June 30, 2004:

	<u>Component Units</u>
2002 Downtown Development Bonds General Obligation Limited Tax, 2.00% to 4.00%, dated November 1, 2002	\$ 2,850,000
2004 Local Development Bonds General Obligation Limited Tax, 4.50% to 4.90%, dated May 29, 2002	560,000
1995 Downtown Development Bonds General Obligation Limited Tax, 6.00% to 6.40%, dated October 1, 1996	550,000
Local Development Bonds General Obligation Limited Tax, 5.10% to 5.70%, dated October 1, 1996	245,000
Downtown Development Bonds General Obligation Limited Tax, 4.25% to 7.25%, dated September 1, 1998	775,000
Land Contract - Property, 4.36%, dated June 4, 1999	<u>22,982</u>
Total	<u>\$ 5,002,982</u>

City of Brighton, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2004:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds and notes payable	\$ 5,783,075	\$ 530,000	\$ (601,006)	\$ 5,712,069	\$ 577,802
Special assessment bonds	3,890,000	-	(230,000)	3,660,000	235,000
Compensated absences	548,937	51,100	-	600,037	166,287
Total governmental activities	<u>\$ 10,222,012</u>	<u>\$ 581,100</u>	<u>\$ (831,006)</u>	<u>\$ 9,972,106</u>	<u>\$ 979,089</u>
Business-type Activities					
General obligation bonds and notes payable	\$ 13,667,753	\$ 1,286,783	\$ (787,200)	\$ 14,167,336	\$ 887,200
Special assessment bonds	315,000	-	(35,000)	280,000	35,000
Compensated absences	100,094	1,771	-	101,865	-
Total business-type activities	<u>\$ 14,082,847</u>	<u>\$ 1,288,554</u>	<u>\$ (822,200)</u>	<u>\$ 14,549,201</u>	<u>\$ 922,200</u>
Component Unit - General obligation bonds and notes payable					
	<u>\$ 5,330,834</u>	<u>\$ -</u>	<u>\$ (327,852)</u>	<u>\$ 5,002,982</u>	<u>\$ 297,220</u>

Debt Service Requirements

The annual requirements to service all debt outstanding of the City as of June 30, 2004 (excluding sick and vacation benefits), including both principal and interest, are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 812,802	\$ 429,128	\$ 1,241,930	\$ 922,200	\$ 654,683	\$ 1,576,883
2006	801,605	392,426	1,194,031	992,200	613,518	1,605,718
2007	682,662	356,833	1,039,495	737,200	568,391	1,305,591
2008	645,000	325,659	970,659	782,200	535,988	1,318,188
2009	725,000	293,508	1,018,508	837,200	500,363	1,337,563
2010-2014	3,395,000	933,951	4,328,951	4,016,000	1,958,953	5,974,953
2015-2019	1,615,000	347,470	1,962,470	4,236,600	1,013,338	5,249,938
2020-2024	695,000	51,799	746,799	1,923,736	113,820	2,037,556
Total	<u>\$ 9,372,069</u>	<u>\$ 3,130,774</u>	<u>\$ 12,502,843</u>	<u>\$ 14,447,336</u>	<u>\$ 5,959,054</u>	<u>\$ 20,406,390</u>

Note 7 - Long-term Debt (Continued)

Debt Service Requirements (Continued)

The annual requirements to service all debt outstanding of the component units as of June 30, 2004, including both principal and interest, are as follows:

	Component Units		
	Principal	Interest	Total
2005	\$ 297,220	\$ 429,128	\$ 726,348
2006	324,826	392,426	717,252
2007	320,000	356,833	676,833
2008	370,000	325,659	695,659
2009	400,000	293,508	693,508
2010-2014	2,345,000	933,951	3,278,951
2015-2019	740,000	347,470	1,087,470
2020-2024	205,936	51,799	257,735
Total	<u>\$ 5,002,982</u>	<u>\$ 3,130,774</u>	<u>\$ 8,133,756</u>

Description of Long-term Debt

Primary Government - The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2004, \$1,000,000 of bonds outstanding is considered defeased.

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business- type Activities	Total	Component Units
Unspent bond proceeds and related interest	\$ 292,075	\$ 70,210	\$ 362,285	\$ 1,184,000

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health and disability claims and participates in the Michigan Municipal League risk pool for claims relating to general liability, property, and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plan

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the City's competitive bargaining units and requires no contribution from the employees. The funding policy provides for periodic employer contributions at actuarially determined rates.

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2004, the City's annual pension cost of \$317,433 for the plan was equal to or greater than the City's required actuarial contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) 2.0 percent to 2.5 percent per year cost of living adjustments for certain retirees. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 30 years.

	Fiscal Year Ended December 31		
	2002	2003	2004
Annual pension costs (APC)	\$ 310,004	\$ 308,500	\$ 317,433
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None
	Fiscal Year Ended December 31		
	2002	2003	2004
Actuarial value of assets	\$ 4,256,847	\$ 4,598,163	\$ 5,109,015
Actuarial accrued liability (AAL) (entry age)	\$ 5,709,179	\$ 6,310,548	\$ 6,974,789
Unfunded AAL (UAAL)	\$ 1,452,332	\$ 1,712,385	\$ 1,865,774
Funded ratio	75%	73%	73%
Covered payroll	\$ 2,478,953	\$ 2,607,228	\$ 2,821,164
UAAL as a percentage of covered payroll	59%	66%	66%

Note 11 - Other Postemployment Benefits

The City provides postemployment health benefits to all full-time employees upon retirement, in accordance with City policy. Currently, 14 retirees are eligible for postemployment health benefits. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health benefits are recognized in the General Fund and Utility Fund as the insurance premiums become due; during the year, this amounted to approximately \$127,000.

Note 11 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2008.

Note 12 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City of Brighton has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities and discretely presented component units' activities, including infrastructure (roads, bridges, etc.) and long-term debt
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets include infrastructure assets (roads, bridges, etc.) not previously accounted for by the City as well as assets totaling approximately \$10,222,000 that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$325,000 to reflect the historical cost of the City's capital assets at that date.

Note 12 - Accounting and Reporting Change (Continued)

- The governmental activities column includes bonds and other long-term obligations totaling \$10,222,000 previously reported in the General Long-term Debt Account Group.
- Capital assets at July 1, 2003 in the Enterprise Fund have been adjusted by approximately \$1,600,000. Accordingly, beginning fund balance was adjusted by the same amount.
- Previously, the Cemetery Trust Fund was reported as a separate Trust and Agency Fund. As of July 1, 2003, it was combined with the General Fund, consequently increasing the beginning fund balance in the General Fund by \$302,738. The Cemetery Fund balance is tracked separately and is reported as reserved fund balance.

Required Supplemental Information

City of Brighton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Fund Balance - Beginning of year	\$ 1,518,652	\$ 2,007,446	\$ 2,007,446	\$ -
Revenue				
Property taxes	4,917,185	4,945,854	4,946,662	808
State-shared	667,907	631,368	625,134	(6,234)
Federal grants	10,000	-	1,212	1,212
Charges for services	317,530	302,953	399,748	96,795
Fines and penalties	80,640	77,490	100,484	22,994
Licenses and permits	352,370	404,381	429,986	25,605
Interest	177,550	58,055	45,028	(13,027)
Other	185,076	185,426	200,863	15,437
Total revenue	6,708,258	6,605,527	6,749,117	143,590
Expenditures				
General government:				
City council	63,531	68,046	62,061	5,985
City manager	106,253	107,002	106,372	630
City clerk	168,674	166,969	155,509	11,460
Legal services	156,352	164,167	153,086	11,081
Personnel	70,014	71,194	70,092	1,102
Finance	311,814	311,869	288,212	23,657
Information technology	202,900	201,199	198,720	2,479
Postemployment benefits	381,501	369,341	348,637	20,704
Other agencies	124,005	124,005	121,052	2,953
Contingencies	41,160	10,000	4,140	5,860
Total general government	1,626,204	1,593,792	1,507,881	85,911
Public safety - Police department	1,660,968	1,677,990	1,675,356	2,634
Public services	1,686,796	1,817,854	1,739,602	78,252
Community development	608,575	612,926	590,153	22,773
Other Financing Sources (Uses)				
Transfers from other funds and component units	447,131	444,869	38,000	(406,869)
Transfers to other funds and component units	(1,476,214)	(1,323,931)	(1,304,077)	19,854
Total other financing sources (uses)	(1,029,083)	(879,062)	(1,266,077)	(387,015)
Fund Balance - End of year	\$ 1,615,284	\$ 2,031,349	\$ 1,977,494	\$ (53,855)

City of Brighton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Street Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Fund Balance - Beginning of year	\$ 87,305	\$ 933,847	\$ 933,847	\$ -
Revenue				
State-shared	306,769	317,000	331,220	14,220
Federal grants	-	260,231	260,231	-
Special assessments	200,873	201,959	273,233	71,274
Fines and penalties	1,360	740	913	173
Licenses and permits	24,195	24,195	22,304	(1,891)
Interest	15,000	8,400	6,082	(2,318)
Other	-	-	204,965	204,965
Total revenue	548,197	812,525	1,098,948	286,423
Expenditures				
Administration	57,570	38,858	41,102	(2,244)
Engineering services	60,000	200,000	207,029	(7,029)
Street construction	616,500	1,292,804	1,052,826	239,978
Routine maintenance	96,060	96,060	90,230	5,830
Trust maintenance	8,489	27,903	23,348	4,555
Traffic service	54,121	54,121	55,822	(1,701)
Winter maintenance	60,972	60,972	52,292	8,680
Total expenditures	953,712	1,770,718	1,522,649	248,069
Other Financing Sources (Uses)				
Operating transfers in	873,782	728,435	41,988	(686,447)
Operating transfers out	(395,954)	(395,954)	(395,954)	-
Issuance of debt	-	-	454,165	454,165
Total other financing sources (uses)	477,828	332,481	100,199	(232,282)
Fund Balance - End of year	\$ 159,618	\$ 308,135	\$ 610,345	\$ 302,210

City of Brighton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds (Continued) Local Street Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance with Amended Budget
Fund Balance - Beginning of year	\$ 145,144	\$ 176,242	\$ 176,242	\$ -
Revenue				
State-shared	95,454	103,000	106,925	3,925
Charges for services	2,600	2,600	2,600	-
Fines and penalties	1,269	740	-	(740)
Licenses and permits	3,400	3,400	3,913	513
Interest	3,652	10,000	890	(9,110)
Total revenue	106,375	119,740	114,328	(5,412)
Expenditures				
Administration	3,061	3,061	3,061	-
Engineering services	-	1,370	1,370	-
Street construction	-	251,938	251,938	-
Routine maintenance	72,976	72,976	72,976	-
Trust maintenance	58,489	73,533	17,473	56,060
Traffic service	36,246	36,246	33,002	3,244
Winter maintenance	45,032	45,032	42,935	2,097
Total expenditures	215,804	484,156	422,755	61,401
Other Financing Sources - Operating transfers in	50,000	249,708	249,708	-
Fund Balance - End of year	<u>\$ 85,715</u>	<u>\$ 61,534</u>	<u>\$ 117,523</u>	<u>\$ 55,989</u>

City of Brighton, Michigan

Notes to Required Supplemental Information June 30, 2004

Capital Improvement Fund Budget - The Council adopted a budget for the Capital Improvement Fund based on total expenditures. The original and amended budgeted expenditures were \$961,643 and \$972,434, respectively. Actual expenditures were \$720,009.

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds. The City's budget is prepared in compliance with the uniform budgeting provisions of Michigan law.

Expenditures are authorized via an annual budget passed by resolution in which the Council authorizes the level of funding for City operations. The Council adopts an activity level budget which is considered the maximum authorization to incur liabilities and not a mandate to spend. No obligation shall be incurred against, and no payment shall be made from any appropriation account that lacks a sufficient balance available to meet the obligation.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as designations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Other Supplemental Information

City of Brighton, Michigan

Schedule of Indebtedness June 30, 2004

Description	Interest	Date of	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)	Maturity	Maturity	2004	2003
<u>Governmental Funds Obligations</u>					
Capital Improvement Bonds (General Obligation Limited Tax)					
Amount of issue - \$530,000					
Date of issue - August 13, 2003					
	3.000	04/01/04-05	\$ 20,000	\$ 40,000	\$ -
	3.200	04/01/06	25,000	25,000	-
	3.400	04/01/07	25,000	25,000	-
	3.500	04/01/08	30,000	30,000	-
	3.550	04/01/09	30,000	30,000	-
	3.600	04/01/10	35,000	35,000	-
	3.700	04/01/11	35,000	35,000	-
	3.850	04/01/12	40,000	40,000	-
	4.000	04/01/13	40,000	40,000	-
	4.150	04/01/14	40,000	40,000	-
	4.300	04/01/15	45,000	45,000	-
	4.400	04/01/16	45,000	45,000	-
	4.500	04/01/17	50,000	50,000	-
	4.600	04/01/18	50,000	50,000	-
Total				530,000	-
Special Assessment Limited Tax Bond, Series 2002					
Amount of issue - \$3,570,000					
Date of issue - May 29, 2002					
	3.500	10/01/03	170,000	-	170,000
	3.500	10/01/04-05	175,000	350,000	350,000
	3.750	10/01/06-07	175,000	350,000	350,000
	4.000	10/01/08-09	175,000	350,000	350,000
	4.100	10/01/10	175,000	175,000	175,000
	4.200	10/01/11	175,000	175,000	175,000
	4.250	10/01/12	175,000	175,000	175,000
	4.400	10/01/13	200,000	200,000	200,000
	4.500	10/01/14	200,000	200,000	200,000
	4.600	10/01/15	200,000	200,000	200,000
	4.700	10/01/16	200,000	200,000	200,000
	4.750	10/01/17	200,000	200,000	200,000
	4.800	10/01/18	200,000	200,000	200,000
	4.875	10/01/19-20	200,000	400,000	400,000
	5.000	10/01/21	200,000	200,000	200,000
Total				3,375,000	3,545,000

City of Brighton, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest	Date of	Amount of	Principal Outstanding	
	Rate	Maturity	Annual	June 30	
	(Percent)		Maturity	2004	2003
Governmental Funds Obligations (Continued)					
Street Bonds (General Obligation Limited Tax)					
Amount of issue - \$410,000					
Date of issue - May 29, 2002					
	3.500	10/01/03-05	\$ 10,000	\$ 20,000	\$ 30,000
	3.750	10/01/06-07	15,000	30,000	30,000
	4.000	10/01/08-09	15,000	30,000	30,000
	4.100	10/01/10	20,000	20,000	20,000
	4.200	10/01/11	20,000	20,000	20,000
	4.250	10/01/12	20,000	20,000	20,000
	4.400	10/01/13	20,000	20,000	20,000
	4.500	10/01/14	25,000	25,000	25,000
	4.600	10/01/15	25,000	25,000	25,000
	4.700	10/01/16	25,000	25,000	25,000
	4.750	10/01/17	30,000	30,000	30,000
	4.800	10/01/18	30,000	30,000	30,000
	4.875	10/01/19-20	30,000	60,000	60,000
	5.000	10/01/21	35,000	35,000	35,000
Total				390,000	400,000
1990 Michigan Transportation Fund Bonds					
Amount of issue - \$660,000					
Date of issue - May 1, 1990					
	4.125	09/01/03	65,000	-	65,000
	4.125	09/01/04	70,000	70,000	70,000
Total				70,000	135,000
1994 Michigan Transportation Fund Bonds					
Amount of issue - \$110,000					
Date of issue - October 1, 1994					
	4.750	08/01/03-04	15,000	15,000	30,000
Special Assessment Limited Tax Street Bond, Series 1994					
Amount of issue - \$835,000					
Date of issue - October 1, 1994					
	5.500	10/01/03	60,000	-	60,000
	5.600	10/01/04	60,000	60,000	60,000
	5.200	10/01/05	60,000	60,000	60,000
	4.750	10/01/06-08	55,000	165,000	165,000
Total				285,000	345,000

City of Brighton, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest	Date of	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)	Maturity	Maturity	2004	2003
Governmental Funds Obligations (Continued)					
Street Bonds (General Obligation Unlimited Tax)					
Amount of issue - \$2,000,000					
Date of issue - June 1, 1996					
	5.000	10/01/03	\$ 125,000	\$ -	\$ 125,000
	5.100	10/01/04	125,000	125,000	125,000
	5.200	10/01/05	150,000	150,000	150,000
	5.300	10/01/06	150,000	150,000	150,000
	5.400	10/01/07	150,000	150,000	150,000
	5.500	10/01/08	200,000	200,000	200,000
	5.600	10/01/09	200,000	200,000	200,000
	5.700	10/01/10	200,000	200,000	200,000
	5.800	10/01/11	200,000	200,000	200,000
Total				1,375,000	1,500,000
Building Authority (General Obligation Limited Tax)					
Amount of issue - \$1,200,000					
Date of issue - August 1, 1996					
	5.000	11/01/03	25,000	-	25,000
	5.100	11/01/04	50,000	50,000	50,000
	5.200	11/01/05	50,000	50,000	50,000
	5.300	11/01/06	50,000	50,000	50,000
	5.400	11/01/07	50,000	50,000	50,000
	5.500	11/01/08	75,000	75,000	75,000
	5.600	11/01/09	75,000	75,000	75,000
	5.700	11/01/10	100,000	100,000	100,000
	5.800	11/01/11-12	100,000	200,000	200,000
	5.900	11/01/13	100,000	100,000	100,000
	5.900	11/01/14-15	125,000	250,000	250,000
Total				1,000,000	1,025,000

City of Brighton, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest	Date of	Amount of	Principal Outstanding	
	Rate	Maturity	Annual	June 30	
	(Percent)		Maturity	2004	2003
Governmental Funds Obligations (Continued)					
Street Bonds (General Obligation Unlimited Tax)					
Amount of issue - \$2,000,000					
Date of issue - October 1, 1997					
	6.100	11/01/03	\$ 100,000	\$ -	\$ 100,000
	4.400	11/01/04	100,000	100,000	100,000
	4.500	11/01/05	125,000	125,000	125,000
	4.550	11/01/06	125,000	125,000	125,000
	4.650	11/01/07	150,000	150,000	150,000
	4.650	11/01/08	150,000	150,000	150,000
	4.500	11/01/09	200,000	200,000	200,000
	4.500	11/01/10	225,000	225,000	225,000
	4.500	11/01/11	250,000	250,000	250,000
	4.750	11/01/12	300,000	300,000	300,000
Total				1,625,000	1,725,000
1999 Michigan Transportation Fund Bonds					
Amount of issue - \$320,000					
Date of issue - September 1, 1999					
	7.000	08/01/03-04	10,000	10,000	20,000
	5.000	08/01/05-06	25,000	50,000	50,000
	5.100	08/01/07	25,000	25,000	25,000
	5.200	08/01/08	25,000	25,000	25,000
	5.300	08/01/09	30,000	30,000	30,000
	5.400	08/01/10	30,000	30,000	30,000
	5.500	08/01/11	35,000	35,000	35,000
	5.600	08/01/12	35,000	35,000	35,000
	5.700	08/01/13	40,000	40,000	40,000
Total				280,000	290,000

City of Brighton, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest	Date of	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)	Maturity	Maturity	2004	2003
Governmental Funds Obligations (Continued)					
Installment loan - Capital Improvement					
Program - Equipment					
Amount of loan - \$172,029					
Date of loan - June 29, 1999					
	5.180	07/15/03	Various	\$ -	\$ 35,620
Installment loan - Property					
Amount of loan - \$425,503					
Date of loan - April 6, 1999					
	5.100	08/01/03- 02/01/07	Various	192,166	253,083
Installment loan - Capital Improvement					
Program - Equipment					
Amount of loan - \$204,488					
Date of loan - December 15, 1998					
	4.500	07/07/03- 01/07/04	Various	-	45,050
Installment loan - Capital Improvement					
Program - DPS expansion and equipment					
Amount of loan - \$542,873					
Date of loan - November 20, 2000					
	4.850	08/01/03- 02/01/06	Various	234,903	344,320
Accumulated employee benefits	-	Various	Various	600,037	548,939
Total governmental funds				\$ 9,972,106	\$ 10,222,012

City of Brighton, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest	Date of	Amount of	Principal Outstanding	
	Rate	Maturity	Annual	June 30	
	(Percent)		Maturity	2004	2003
<u>Enterprise Funds Obligations</u>					
2004 Drinking Water Revolving Funds					
Amount of issue - \$1,520,000					
Date of issue - March 25, 2004					
	2.125	10/01/04	\$ 60,000	\$ 60,000	\$ -
	2.125	10/01/05-08	65,000	260,000	-
	2.125	10/01/09-11	70,000	210,000	-
	2.125	10/01/12-14	75,000	225,000	-
	2.125	10/01/15-17	80,000	240,000	-
	2.125	10/01/18-20	85,000	255,000	-
	2.125	10/01/21-23	90,000	34,406	-
Total				1,284,406	-
Sewage Treatment Refunding General Obligation Bonds					
Amount of issue - \$2,715,000					
Date of issue - March 1, 1997					
	4.550	04/01/04	375,000	-	375,000
	4.650	04/01/05	365,000	365,000	365,000
	4.750	04/01/06	355,000	355,000	355,000
Total				720,000	1,095,000
1995 Special Assessment Bonds - Sewer Improvements					
Amount of issue - \$665,000					
Date of issue - July 1, 1993					
	4.850	04/01/04	35,000	-	35,000
	5.000	04/01/05	35,000	35,000	35,000
	5.100	04/01/06	35,000	35,000	35,000
	5.200	04/01/07	35,000	35,000	35,000
	5.300	04/01/08	35,000	35,000	35,000
	5.400	04/01/09	35,000	35,000	35,000
	5.450	04/01/10	35,000	35,000	35,000
	5.500	04/01/11-12	35,000	70,000	70,000
Total				280,000	315,000

City of Brighton, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest	Date of	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)	Maturity	Maturity	2004	2003
Enterprise Funds Obligations (Continued)					
Contract payable - Livingston County Water Project					
Amount of contract - \$344,000					
Date of contract - December 1, 1997					
	6.000	12/01/03-16	Various	\$ 223,600	\$ 240,800
Contract payable - Livingston County Water Supply System					
Amount of contract - \$2,500,000					
Date of contract - September 1, 1988					
	7.100	10/01/03	150,000	- *	- *
	7.200	10/01/04	150,000	- *	- *
	7.200	10/01/05	175,000	- *	- *
	7.200	10/01/06	200,000	- *	- *
	5.250	10/01/07-09	200,000	600,000	600,000
Total face value				600,000	600,000
Less unamortized discount				(12,670)	(15,047)
Total				587,330	584,953
Contract payable - Livingston County Water Supply System					
Amount of contract - \$2,900,000					
Date of contract - September 1, 1988					
	4.200	11/01/03	220,000	-	220,000
	4.300	11/01/04	220,000	220,000	220,000
	4.400	11/01/05	245,000	245,000	245,000
	4.500	11/01/06	270,000	270,000	270,000
	4.600	11/01/07	65,000	65,000	65,000
	4.750	11/01/08	70,000	70,000	70,000
	4.900	11/01/09	70,000	70,000	70,000
	5.000	11/01/10	75,000	75,000	75,000
	5.000	11/01/11	80,000	80,000	80,000
	5.000	11/01/12	80,000	80,000	80,000
	5.000	11/01/13	85,000	85,000	85,000
	5.000	11/01/14	90,000	90,000	90,000
	5.000	11/01/15	95,000	95,000	95,000
Total				1,445,000	1,665,000

* Debt defeased during the year ended June 30, 1996

City of Brighton, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest	Date of	Amount of	Principal Outstanding	
	Rate	Maturity	Annual	June 30	
	(Percent)		Maturity	2004	2003
Enterprise Funds Obligations (Continued)					
Contract payable - Livingston County Water Supply System					
Amount of contract - \$1,200,000					
Date of contract - December 1, 1999					
	6.500	11/01/03-04	\$ 25,000	\$ 25,000	\$ 50,000
	6.000	11/01/05	25,000	25,000	25,000
	5.000	11/01/06-08	50,000	150,000	150,000
	5.050	11/01/09	50,000	50,000	50,000
	5.100	11/01/10	50,000	50,000	50,000
	5.100	11/01/11	75,000	75,000	75,000
	5.150	11/01/12	75,000	75,000	75,000
	5.200	11/01/13	75,000	75,000	75,000
	5.300	11/01/14	75,000	75,000	75,000
	5.375	11/01/15	75,000	75,000	75,000
	5.500	11/01/16-17	75,000	150,000	150,000
	5.600	11/01/18	100,000	100,000	100,000
	5.650	11/01/19	100,000	100,000	100,000
	5.700	11/01/20	100,000	100,000	100,000
Total face value				1,125,000	1,150,000
Less unamortized discount				(18,000)	(18,000)
Total				1,107,000	1,132,000

City of Brighton, Michigan

Schedule of Indebtedness (Continued) June 30, 2004

Description	Interest	Date of	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)	Maturity	Maturity	2004	2003
Enterprise Funds Obligations (Continued)					
Michigan Municipal Bond Authority - Wastewater					
Plant Expansion Revenue Bonds - Series 2001a					
Amount of loan - \$8,950,000					
Date of issue - March 29, 2001					
	3.500	11/01/03	\$ 150,000	\$ -	\$ 150,000
	3.650	11/01/04	200,000	200,000	200,000
	3.800	11/01/05	250,000	250,000	250,000
	3.900	11/01/06	300,000	300,000	300,000
	4.000	11/01/07	350,000	350,000	350,000
	4.100	11/01/08	400,000	400,000	400,000
	4.200	11/01/09	450,000	450,000	450,000
	4.300	11/01/10	500,000	500,000	500,000
	4.400	11/01/11	500,000	500,000	500,000
	4.500	11/01/12	550,000	550,000	550,000
	4.600	11/01/13	550,000	550,000	550,000
	4.700	11/01/14	600,000	600,000	600,000
	4.800	11/01/15	600,000	600,000	600,000
	5.375	11/01/16	600,000	600,000	600,000
	5.375	11/01/17	700,000	700,000	700,000
	5.000	11/01/18	700,000	700,000	700,000
	5.000	11/01/19	750,000	750,000	750,000
	5.000	11/01/20	800,000	800,000	800,000
Total				8,800,000	8,950,000
Total Enterprise Funds obligations				\$ 14,447,336	\$ 13,982,753

City of Brighton, Michigan

Schedule of Indebtedness Component Units June 30, 2004

Description	Interest	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
	Rate			June 30	
	(Percent)			2004	2003
<u>Component Units</u>					
2002 Downtown Development Bonds (General Obligation Limited Tax)					
Amount of issue - \$3,000,000					
Date of issue - November 1, 2002					
	2.000	06/01/04	\$ 150,000	\$ -	\$ 150,000
	2.000	06/01/05	175,000	175,000	175,000
	2.500	06/01/06	175,000	175,000	175,000
	2.750	06/01/07	175,000	175,000	175,000
	3.250	06/01/08	175,000	175,000	175,000
	3.250	06/01/09	200,000	200,000	200,000
	3.500	06/01/10	200,000	200,000	200,000
	3.600	06/01/11	225,000	225,000	225,000
	3.750	06/01/12	275,000	275,000	275,000
	3.800	06/01/13	350,000	350,000	350,000
	4.000	06/01/14	400,000	400,000	400,000
	4.000	06/01/15	500,000	500,000	500,000
Total				2,850,000	3,000,000

2002 Local Development Bonds (General Obligation Limited Tax)

Amount of issue - \$570,000

Date of issue - May 29, 2002

	5.000	10/01/03	10,000	-	10,000
	4.750	10/01/04	10,000	10,000	10,000
	4.500	10/01/05-07	15,000	45,000	45,000
	4.600	10/01/08	20,000	20,000	20,000
	4.700	10/01/09	20,000	20,000	20,000
	4.750	10/01/10	20,000	20,000	20,000
	4.875	10/01/11	20,000	20,000	20,000
	5.000	10/01/12	25,000	25,000	25,000
	4.900	10/01/13	30,000	30,000	30,000
	5.000	10/01/14	30,000	30,000	30,000
	5.050	10/01/15	30,000	30,000	30,000
	5.100	10/01/16	35,000	35,000	35,000
	5.150	10/01/17	35,000	35,000	35,000
	5.200	10/01/18	35,000	35,000	35,000
	5.250	10/01/19	35,000	35,000	35,000
	5.300	10/01/20	40,000	40,000	40,000
	5.350	10/01/21	40,000	40,000	40,000
	5.400	10/01/22	40,000	40,000	40,000
	5.450	10/01/23	50,000	50,000	50,000
Total				560,000	570,000

City of Brighton, Michigan

Schedule of Indebtedness Component Units (Continued) June 30, 2004

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2004	2003
Component Units (Continued)					
1995 Downtown Development Bonds (General Obligation Limited Tax)					
Amount of issue - \$750,000					
Date of issue - February 1, 1995					
	6.000	12/01/03	\$ 25,000	\$ -	\$ 25,000
	6.000	12/01/04	25,000	25,000	25,000
	6.000	12/01/05	25,000	25,000	25,000
	6.000	12/01/06	25,000	25,000	25,000
	6.000	12/01/07	50,000	50,000	50,000
	6.000	12/01/08	50,000	50,000	50,000
	6.350	12/01/09	50,000	50,000	50,000
	6.400	12/01/10-11	50,000	100,000	100,000
	6.400	12/01/12-13	75,000	150,000	150,000
	6.400	12/01/2014	75,000	75,000	75,000
Total				550,000	575,000
Local Development Bonds (General Obligation Limited Tax)					
Amount of issue - \$375,000					
Date of issue - October 1, 1996					
	5.000	10/01/03	25,000	-	25,000
	5.100	10/01/04	25,000	25,000	25,000
	5.200	10/01/05	25,000	25,000	25,000
	5.300	10/01/06	30,000	30,000	30,000
	5.400	10/01/07	30,000	30,000	30,000
	5.500	10/01/08	30,000	30,000	30,000
	5.600	10/01/09	35,000	35,000	35,000
	5.700	10/01/10-11	35,000	70,000	70,000
Total				245,000	270,000

City of Brighton, Michigan

Schedule of Indebtedness Component Units (Continued) June 30, 2004

Description	Interest	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
	Rate			June 30	
	(Percent)			2004	2003
<u>Component Units</u> (Continued)					
Downtown Development Bonds (General Obligation Limited Tax)					
Amount of issue - \$995,000					
Date of issue - September 1, 1998					
	7.250	06/01/04	\$ 50,000	\$ -	\$ 50,000
	7.250	06/01/05	50,000	50,000	50,000
	4.250	06/01/06	75,000	75,000	75,000
	4.250	06/01/07	75,000	75,000	75,000
	4.250	06/01/08	100,000	100,000	100,000
	4.250	06/01/09	100,000	100,000	100,000
	4.250	06/01/10	125,000	125,000	125,000
	4.250	06/01/11	125,000	125,000	125,000
	4.250	06/01/12	125,000	125,000	125,000
Total				775,000	825,000
Land Contract					
Amount of contract - \$90,000					
Date of contract - April 5, 1997					
	11.000	05/05/04-05	Various	22,982	33,436
Installment loan - Property					
Amount of loan - \$255,750					
Date of loan - June 4, 1999					
	4.360	06/01/04	Various	-	57,398
Total - Component units				\$ 5,002,982	\$ 5,330,834

Statistical and Continuing Disclosures

APPENDIX A

STATISTICAL AND DISCLOSURE SECTION

City of Brighton Bond Investors' interests must be protected through mechanisms that promote fair markets, honest managers and full and fair disclosure.

All City bond investors have the right to management and policy makers who:

1. provide equal and fair treatment;
2. treat their money with fiscal responsibility and due care as if it were their own;
3. foster a corporate culture of integrity, honesty and adherence to the spirit as well as the letter of the law;
4. shoot straight - who tell the bondholders the complete story, without omission, without hype, without spin, and without delay;
5. foster a corporate culture in which people don't cut corners just so they can report favorably on the achievement of individual or organizational goals;
6. understands their job is to manage the business, not the numbers;
7. clearly understands it is the steward of the bondholders' investments;
8. provides timely and consistently transparent disclosures that reflect the true economics of the City's business, including complete and unbiased financial disclosures of all matters management or the auditors would want to know if they were investing in the City themselves;
9. contract with independent auditors that act on behalf of investors as challenging skeptics who must be convinced of the facts; and
10. participate in competitive bond markets, where sales are executed at the best possible price.

To this end, below you will find certain financial information and operating data per the disclosure requirements of the federal securities laws.

PROPERTY VALUATIONS

Article IX, Section 3, of the Michigan Constitution provides that the proportion of true cash value at which property shall be assessed shall not exceed 50% of the true cash value. The Michigan Legislature by statute has provided that property shall be assessed at 50% of its true cash value. The Michigan Legislature or the electorate may at some future time reduce the percentage below 50% of true cash value.

On March 15, 1994, the electors of the State approved an amendment to the Michigan Constitution permitting the Legislature to authorize ad valorem taxes on a non-uniform basis. The legislation implementing this constitutional amendment added a new measure of property value known as “Taxable Value.” Beginning in 1995, taxable property will have two valuations -- State Equalized Valuation (“SEV”) and Taxable Value. Property taxes will be levied on Taxable Value. Generally, Taxable Value of property is the lesser of (a) the Taxable Value of the property in the immediately preceding year, adjusted for losses, multiplied by the lesser of the net percentage change in the property’s SEV, or the inflation rate, or 5%, plus additions, or (b) the property’s current SEV. Under certain circumstances, therefore, the Taxable Value of property may be different from the same property’s SEV.

This constitutional amendment and the implementing legislation base the Taxable Value of existing property for the year 1995 on the SEV of that property in 1994 and for the years 1996 and thereafter on the Taxable Value of the property in the preceding year. Beginning with the taxes levied in 1995, an increase, if any, in Taxable Value of existing property is limited to the lesser of the percentage net change in SEV from the preceding year to the current year, 5% or the inflation rate. When property is sold or transferred, Taxable Value is adjusted to the SEV, which under existing law is 50% of the current true cash value. The Taxable Value of new construction is equal to current SEV. Taxable Value and SEV of existing property are also adjusted annually for additions and losses.

Responsibility for assessing taxable property rests with the City Assessor. Any property owner may appeal the assessment to the City Assessor, the local Board of Review and ultimately to the Michigan Tax Tribunal.

The Michigan Constitution also mandates a system of equalization for assessments. Although the City Assessor is responsible for actually assessing at 50% of true cash value, adjusted for Taxable Value purposes, the final SEV and Taxable Value are arrived at through several steps. Assessments are established initially by the City Assessor. These assessments are then equalized to the 50% levels as determined by the Livingston County Department of Equalization. Thereafter, the State equalizes Livingston County in relation to other counties. SEV is important, aside from its use in determining Taxable Value for the purpose of levying ad valorem property taxes, because of its role in the spreading of taxes between overlapping jurisdictions, the distribution of various State aid programs and State revenue sharing.

Property that is exempt from property taxes, e.g., churches, government property, public schools, is not included in the SEV and Taxable Value data in the City’s Bond Official Statement. Property granted tax abatements under either Act 198, Public Acts of Michigan, 1974, as amended (“Act 198”), or Act 255, Public Acts of Michigan, 1978, as amended (“Act 255”), is recorded on separate tax rolls while subject to tax abatement. The valuation of tax abated property is based upon SEV but is not included in either the SEV or Taxable Value data in the City’s Bond Official Statement except as noted. Property taxpayers may appeal their assessments to the Michigan Tax Tribunal. Unless otherwise ordered by the Tax Tribunal, before the Tax Tribunal renders a decision on an assessment appeal, the taxpayer must have paid the tax bill. The City currently has four tax appeals pending before the Tax Tribunal.

HISTORY OF PROPERTY VALUATIONS

<u>Year</u>	<u>State Equalized Valuation</u>	<u>Taxable Value*</u>
2004	\$428,660,500	\$354,493,400
2003	\$396,171,700	\$328,690,500
2002	371,088,100	310,761,900
2001	346,948,700	288,571,700
2000	292,188,300	262,290,300
1999	271,042,700	244,011,300
1998	240,722,000	222,746,800
1997	217,035,200	204,863,268
1996	202,159,500	190,535,700
1995	180,420,800	176,158,500

*Beginning in 1995, ad valorem millage began to be based on the Taxable Value rather than the State Equalized Value. In other words, beginning in 1995, taxes levied are calculated by applying the millage factor (mills) to the taxable value, i.e., for FY 2004-05, 1 mill produces \$354,493 in tax revenue. See "PROPERTY VALUATIONS" herein.

An analysis of the Taxable Value is as follows:

BY CLASS

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Real Property	\$323,678,000	\$298,920,700	\$281,195,400
Personal Property**	<u>30,815,400</u>	<u>29,769,800</u>	<u>29,566,500</u>
TOTAL	<u>\$354,493,400</u>	<u>\$328,690,500</u>	<u>\$310,761,900</u>

BY USE

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Residential	\$191,670,700	\$174,972,500	\$163,674,700
Commercial	114,550,700	108,478,900	102,640,100
Industrial	17,456,600	15,469,300	14,880,600
Personal Property**	<u>30,815,400</u>	<u>29,769,800</u>	<u>29,566,500</u>
TOTAL	<u>\$354,493,400</u>	<u>\$328,690,500</u>	<u>\$310,761,900</u>

** The Michigan Department of Treasury approved revisions to the State's personal property tax tables which became effective in the year 2000 and which may reduce overall personal property tax revenue. The State Tax Tribunal has informally indicated that it may allow the new multipliers to be applied retroactively in pending personal property tax appeals. The retroactive financial impact of the change in multipliers, if required, on the City's tax revenue is estimated to be \$85,000, which is designated as such in the General Fund's fund balance. Personal property represents 9% of the total property currently subject to taxation in the jurisdictional boundaries of the City and generated operating revenue from taxes on personal property in FY 2003-04 of \$443,000.

MAJOR TAXPAYERS

The 2004 State Equalized Valuation and the 2004 Taxable Value of each of the City's major taxpayers (including abatements) is as follows:

<u>Name of Taxpayer</u>	<u>State Equalized Valuation</u>	<u>Taxable Value</u>
Brighton Mall	\$9,388,300	\$5,898,500
Brighton Interior Systems	7,758,000	7,433,100
Brighton Holdings	7,235,600	6,440,900
Meijer Thrifty-Brighton	5,145,500	4,728,500
Stuart Easy Storage	4,924,200	4,464,700
Detroit Edison	4,786,300	4,751,400
BMH Realty	4,253,000	3,392,900
Ontegra - Brighton	4,136,500	3,950,300
MJR Group	4,111,000	4,053,500
Target Corporation	3,739,600	3,449,800

TAX RATES*

(Per \$1,000 of Taxable Value)

		<u>2004</u>		<u>2003</u>		<u>2002</u>	
		<u>Homestead</u>	<u>Non Homestead</u>	<u>Homestead</u>	<u>Non Homestead</u>	<u>Homestead</u>	<u>Non Homestead</u>
City of Brighton	-Operating	\$14.8872	\$14.8872	\$14.8872	\$14.8872	\$14.8872	\$14.8872
	-Debt	1.0428	1.0428	1.1622	1.1622	1.0992	1.0992
County of Livingston including the Huron Clinton Metropolitan Authority		4.1454	4.1454	4.1454	4.1454	4.2215	4.2215
Brighton Area School District							
	-Operating	0.0000	18.0000	0.0000	18.0000	0.0000	18.0000
	-Site Fund	.9427	.9427	.9427	.9427	.9616	.9616
	-Debt	5.6400	5.6400	5.6400	5.6400	5.6400	5.6400
State Education Tax		6.0000	6.0000	5.0000	5.0000	6.0000	6.0000
Livingston Educational Service Agency		2.4088	2.4088	2.4088	2.4088	2.4788	2.4788
Brighton Area Fire Authority		.9763	.9763	.9763	.9763	1.0000	1.0000
Brighton Area Library		.9442	.9442	.9442	.9442	.9915	.9915
Total All Jurisdictions		<u>\$36.9874</u>	<u>\$54.9874</u>	<u>\$36.1068</u>	<u>\$54.1068</u>	<u>\$37.2798</u>	<u>\$55.2798</u>

* *Homestead* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Homestead includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the homestead includes only 5 acres adjacent and contiguous to the home of the owner. Homestead includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Homestead also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-homestead* is property not included in the above definition.

TAX RATE LIMITATIONS

The City Charter provides tax rate limitations as follows:

<u>Purpose</u>	Rate (per \$1,000 of State <u>Equalized Valuation</u>)	Maximum <u>Permitted Rate</u>
General Operating	\$20.00	\$15.4849

The City may levy taxes pursuant to state law for the following purposes:

<u>Purpose</u>	<u>Authority</u>	Rate (per \$1,000 of State <u>Equalized Valuation</u>)
Refuse Collection and Disposal	Act 298, P.A. of Michigan 1917, as amended	\$3.00
Police & Fire Pension Requirements	Act 345, P.A. of Michigan 1937, as amended	Amount Required to Make Contribution

In addition, Article IX, Section 6, permits the levy of millage in excess of the above for:

1. All debt service on tax supported bond and bonds issued prior to December 23, 1978 or tax supported issues which have been approved by the voters for which the issuer has pledged its full faith and credit.
2. Operating purposes for a specified period of time provided that said increase is approved by a majority of the qualified electors of the local unit.

CONSTITUTIONAL MILLAGE ROLL-BACK

Article IX, Sec. 31 of the Michigan Constitution requires that if the total value of existing taxable property in a local taxing unit, exclusive of new construction and improvements, increases faster than the U.S. Consumer Price Index from one year to the next, the maximum authorized tax rate for that local taxing unit must be permanently reduced through a Millage Reduction Factor unless reversed by a vote of the electorate of the local taxing unit.

OPERATING TAX LEVIES AND COLLECTIONS

<u>Year</u>	<u>Tax Levy</u>	<u>Collections to March 1 of Following Year</u>	
2004	5,280,191	In process of collection	
2003	4,893,281	4,795,497	98.00%
2002	4,619,589	4,526,776	97.99%
2001	4,576,851	4,491,724	98.14%
2000	4,227,910	4,161,412	98.43%
1999	3,959,807	3,899,747	98.35%
1998	3,619,636	3,562,291	98.42%
1997	3,329,055	3,207,890	96.36%
1996	3,183,852	2,994,744	94.06%
1995	2,860,752	2,734,169	95.58%

The City's taxes are due and payable and a lien created upon the assessed property on July 1, each year. Real Property taxes remaining unpaid on the following March 1st are turned over to the County Treasurer for collection. If all real property taxes are not paid within two years from the May 1 following their return to the County Treasurer, the property is sold for taxes.

Livingston County has established a Delinquent Tax Revolving Fund which pays all real property taxes returned delinquent to the County Treasurer as of March 1st of each year. If feasible, it is anticipated that the County will continue to reimburse the City for any uncollected taxes, but there is no assurance that this will be the case since the County is not obligated to continue this fund in future years. Uncollected personal property taxes are collected by the City Treasurer and are negligible.

INDUSTRIAL FACILITIES TAX

The Michigan Plant Rehabilitation and Industrial Development District Act (Act 198, Public Acts of Michigan, 1974, as amended) ("Act 198") provides significant property tax incentives to industry to renovate and expand aging industrial facilities and to build new industrial facilities in Michigan. Under the provision of Act 198, qualifying cities, villages and townships may establish districts in which industrial firms are offered certain property tax incentives to encourage restoration or replacement of obsolete industrial facilities and to attract new industrial facilities.

Property owners situated in such districts pay an Industrial Facilities Tax ("IFT") in lieu of ad valorem property taxes on plant and equipment for a period of up to 12 years. For rehabilitated plant and equipment, the IFT is determined by calculating the product of the state equalized valuation of the replacement facility in the year before the effective date of the abatement certificate multiplied by the total mills levied by all taxing units in the current year. For abatements granted prior to January 1, 1994, new plant and equipment is taxed at one-half the total mills levied by all taxing units, except for mills levied for local school district operating purposes or under the State Education Tax Act, plus one-half of the number of mills levied for local school district operating purposes in 1993.

For new facility abatements granted after 1993, new plant and equipment is taxed at one-half of the total mills levied as ad valorem taxes by all taxing units, except mills levied under the State Education Tax Act, plus the number of mills levied under the State Education Tax Act. For new facility abatements granted after 1993, the State Treasurer may permit abatement of all, none or one-half of the mills levied under the State Education Tax Act.

It must be emphasized, however, that ad valorem property taxes on land and inventory are not reduced in any way since both land and inventory are specifically excluded under Act 198. *The City has 9 IFT exemption certificates currently outstanding, aggregating \$12,945,700.*

DEBT STATEMENT

(As of June 30, 2004 including Bonds described herein)

DEBT:

General Obligation Bonds

06/01/96 Street UT	\$ 1,375,000	
02/27/97 Sewage Refunding	720,000	
10/01/97 Street UT	1,625,000	
05/01/02 Street Improve. LT	390,000	
07/01/03 Capital Improvement, L.T.	<u>530,000</u>	\$ 4,640,000

Authority Bonds

02/01/95 DDA	\$ 550,000	
08/01/96 Police & Vehicle Storage	1,000,000	
10/01/96 LDFA LT	245,000	
09/01/98 DDA	775,000	
05/01/02 LDFA	560,000	
11/01/02 DDA	<u>2,850,000</u>	\$ 5,980,000

Special Assessment Bonds

07/01/93 Utility Improvements	\$ 280,000	
10/01/94 Street Improvements	285,000	
05/01/02 Street Improve. LT	<u>3,375,000</u>	\$ 3,940,000

MTF Bonds

05/01/90	\$ 70,000	
10/01/94	15,000	
09/01/99	<u>280,000</u>	\$ 365,000

Share of County Issued Bonds

Water		\$ 3,393,600
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Revenue Bonds (G.O.) Pledge

03/25/04 Water, L.T. MMBA	\$ 1,520,000	
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Revenue Bond

03/29/01 WWTP	\$ 8,800,000	
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Installment Purchase Contracts

\$ 450,050

TOTAL DEBT

\$ 29,088,650

Less: Special Assessment Bonds

\$ 3,940,000

MTF Bonds

365,000

Revenue Bonds

\$ 8,800,000 \$ 13,105,000

NET DEBT

\$15,983,650

DEBT RATIOS:

Per Capita 2004 State Equalized Valuation	\$ 67,980
Per Capita 2004 True Cash Value	\$ 135,960
Per Capita 2004 Net Direct Debt	\$ 2,251
Percent Net Debt of State Equalized Valuation	3.73%
Percent Net Debt of True Cash Value	1.87%

SCHEDULE OF BOND MATURITIES

(As of June 30, 2004 including Bonds described herein)

<u>Year</u>	<u>General Obligation Bonds</u>	<u>Authority Bonds</u>	<u>Special Assessment Bonds</u>	<u>MTF Bonds</u>	<u>Revenue Bonds</u>	Share of County Issued Bonds <u>Water/Sewer</u>
2004	620,000	335,000	270,000	95,000	260,000	262,200
2005	660,000	365,000	270,000	25,000	315,000	287,200
2006	315,000	370,000	265,000	25,000	365,000	337,200
2007	340,000	420,000	265,000	25,000	415,000	332,200
2008	395,000	475,000	230,000	25,000	465,000	337,200
2009	445,000	505,000	210,000	30,000	520,000	337,200
2010	480,000	555,000	210,000	30,000	570,000	142,200
2011	505,000	605,000	210,000	35,000	570,000	172,200
2012	360,000	550,000	210,000	35,000	625,000	172,200
2013	60,000	605,000	200,000	40,000	625,000	177,200
2014	65,000	730,000	200,000	0	675,000	182,200
2015	70,000	155,000	200,000	0	680,000	187,200
2016	70,000	35,000	200,000	0	680,000	92,200
2017	80,000	35,000	200,000	0	780,000	75,000
2018	80,000	35,000	200,000	0	785,000	100,000
2019	30,000	35,000	200,000	0	835,000	100,000
2020	30,000	40,000	200,000	0	885,000	100,000
2021	35,000	40,000	200,000	0	90,000	0
2022	0	40,000	0	0	90,000	0
2023	0	50,000	0	0	90,000	0
TOTAL	\$ 4,640,000	\$ 5,980,000	\$ 3,940,000	\$ 365,000	\$ 10,320,000	\$ 3,393,600

DEBT HISTORY: There is no record of default.

FUTURE BONDING: The City is preparing to sell \$2,200,000 of Capital Improvement Bonds in FY 2004-05.

STATEMENT OF LEGAL DEBT MARGIN
(As of June 30, 2004 including Bonds described herein)

2003 State Equalized Valuation	\$ 396,171,700
Add: Assessed Value Equivalent of 2003 SEV of Act 198 Exemptions	<u>\$ 12,945,700</u>
Total Valuation	\$ 409,117,400
Debt Limit (10% of State Equalized Valuation)	\$ 40,911,740
Less: Amount of Outstanding Net Debt (Debt Statement)	<u>\$ 15,983,650</u>
LEGAL DEBT MARGIN	<u>\$24,928,090</u>

September 17, 2004

Honorable Mayor and Members
of the City Council
City of Brighton
200 North First Street
Brighton, MI 48116

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements for the City of Brighton the year ended June 30, 2004. As a result of our audit, we offer the following observations and comments for your consideration:

New Accounting Pronouncements

Statement 34

As previously communicated to you, Governmental Accounting Standards Board (GASB) Statement 34 is now here! You will notice a very different look to the financial statements. Preparing for this new reporting model has been a long and arduous process for the City's accounting department. Dave Gajda and his staff have done an excellent job of preparing the necessary GASB 34 schedules as well as assisting and cooperating with the audit work being done on those schedules. The City has definitely benefited from their efforts.

Although there are many differences with this new reporting model, the major additions are as follows:

- **Government-wide Financial Statements:** These additional statements adjust the traditional fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City from a longer term perspective (i.e. are today's taxpayers paying for today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the City's financial picture.
- **Budget Comparison:** A financial statement reader will now be able to view not only the actual revenue and expenditures of the City as compared to the final amended budget, but also as compared to the originally adopted budget.

The GASB believes this new model will provide a more complete picture of the financial position of governmental units. If you desire, we would be happy to schedule a time to provide a more detailed overview of this new reporting model so that you can obtain the greatest benefit from it.

It is important to note that, although the implementation process has received the most attention, there are on-going aspects of GASB 34 that will continue for future year audits. With additional statements, reconciliation from fund-based to Government-wide reporting, infrastructure tracking and more being added to this new model, there is more preparation needed for the audit, as well as more audit procedures to apply. This increases the workload of both the City staff and the auditors.

Statement 45

Additionally, the Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement will require that governmental units create a liability for those costs over the working life of the employee, rather than recognizing the cost as premiums are paid. This is a signification change in reporting and will likely require the use of an actuary to determine the liability. This statement is not required to be implemented until the fiscal year ending June 30, 2010, however, it is being announced at this time to give governmental units time to plan for its impact.

Legislative Issues

State Shared Revenue

The future of State shared revenues received by the City remains fragile. The State did pass the tobacco tax increase, which will give its budget a boost. The elimination of state shared revenue to counties and the advancement of county operating tax levy from the winter bill to the summer remains a key part of the Governor's budget proposal and is awaiting final legislative action. However, the State may cut state shared revenue again for the 2004-05 year depending on what the Legislature decides. Also, absent strong real job growth and continued economic recovery increasing income taxes and single business tax, revenue sharing cuts remain a possibility in future years.

Personal property tax on utility property

The local units have lost their second appeal on this widely publicized lawsuit. While this is technically still in the court system, a judgment has been entered against those local units that were still applying the old depreciation tables in setting the personal property assessments for utility property. Although the final resolution is yet to come, we note that the City has been proactive and has reserved fund balance in the General Fund to address the potential anticipated settlement of this case.

Bolt vs. City of Lansing

As you are aware, in 1998 the Michigan Supreme Court ruling in the *Bolt vs. City of Lansing* case put a spotlight on how user fee revenue is spent. This is currently still an issue of great scrutiny and continues to receive the full attention of the courts.

During the year ended June 30, 2004, the City made a transfer from the Utilities Fund to the Local Street fund for a joint project. Although we are aware the City has recently taken steps to review and amend its Utilities Ordinance to comply with the Bolt ruling and continues to keep apprised of related court decisions, we encourage you to give careful consideration to, and if necessary consult with legal counsel, as you plan for and budget for such joint projects.

General Accounting Issues

Water Loss

During our analytical review of the Water Fund in last year's audit, we noted that the City has an unusually high level of water loss, i.e., the amount of water pumped into the mains but not sold to customers. Since our audit comments for 2003 were not delivered until our audit was completed, a significant portion of the 2004 year had already elapsed. As a result, the water loss continued into 2004 before corrective action could be implemented.

We were pleased to note that the City has taken several steps to improve the water accountability. We were provided a memo from the Public Service Director which outlines the efforts that the City has implemented. These steps address the issues discussed in our letter of comments and recommendations from last year's audit. We are hopeful that those steps will result in a much lower water loss for 2005. We will monitor the improvement and report to you as part of next year's analysis.

Wire Transfer Documentation

Among our clientele, we have noticed significantly more transactions being executed in electronic format. Those include wire transfers, accepting credit card payments via the internet, use of debit cards, etc. Some of these transactions do not provide as clear of an "audit trail" as the more traditional paper based transactions. In response to this trend, we are more closely scrutinizing the controls our clients have in place for such transactions in order to help them safeguard their assets and provide documentation regarding approval and execution of electronic transactions.

During our testing of wire transfers initiated throughout the year, we noted that the City currently does not fill out any formal written documentation of wire transfers (The finance Director gives oral approval). We recommend that the City create a standard wire transfer approval form, showing:

- The purpose of the wire transfer
- The banks/account affected
- The person initiating the transfer
- The person approving it

This form would be simple to create and maintain, and would provide the City with sufficient documentation of all their wire transfer activity.

Alternatively, some financial institutions can assist you in bringing greater control to the process. For example, the City may instruct the bank that no wire transfer can happen until they receive notification by two parties at the City.

With the increase in wire transfer activity in today's business environment, and the risk of fraud associated with wire transfers, we recommend that the City increase such controls.

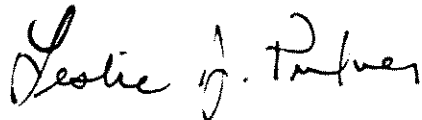
Honorable Mayor and Members
of the City Council
City of Brighton

September 17, 2004
Page 4

We would like to thank the City personnel for the courtesy and assistance extended to us during this unusual audit year. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Leslie J. Pulver". The signature is fluid and cursive, with the first name "Leslie" being more prominent.

Leslie J. Pulver

A handwritten signature in black ink, appearing to read "Chris S. Jones". The signature is fluid and cursive, with the first name "Chris" being more prominent.

Chris S. Jones